
RESEARCH REPORT

US Utilities Sector IT Software & Services Market: 1997 - 2002

United States Utilities Sector IT Software & Services Market: 1997 - 2002

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Abstract

The U.S. Utilities sector, once a highly regulated and monopolistic industry, is now experiencing a period of rapid change.

A combination of new technology driving forces, smaller scale gas powered generating plant and information technology (IT), and deregulation, have had a dramatic impact on the sector, particularly the electricity supply sector.

As a result the Utilities sector is having to focus on competitive customer retention and profitability, a challenge for organizations shifting from monopolistic practices.

IT investment is particularly critical to the achievement of these new objectives. Utilities firms are having to use IT to support the reengineering of their processes to deliver flexible pricing, improved customer care and bottom line oriented efficiency.

This report assesses the impact of these changes on the IT market within the U.S. Utilities sector, particularly on the current and future use of IT Software & Services.

The report provides an analysis of total IT budgets. It provides forecasts for Utilities sector IT Software & Services expenditure through to the year 2002 and provides comparisons with other U.S. industry sectors.

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Market Forecast Program

***United States Utilities Sector
IT Software & Services Market: 1997 - 2002***

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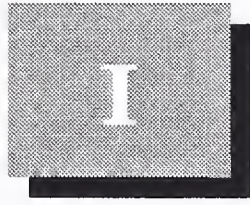
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Introduction

This report is produced as part of INPUT's *U.S. Market Forecast Program* for the IT Software & Services industry.

This report is one of a series produced by INPUT to examine the relative importance and position of key industry sectors for the U.S. IT Software & Services business.

Companion reports in other INPUT Programs cover these industry sectors for Europe and from a worldwide perspective.

This chapter identifies the purpose and scope of this report, describes how the document is organized, and explains INPUT's research methodology.

A

Purpose of the Report

The purpose of this report is to provide an industry perspective on the Utilities sector in the U.S. for IT Software & Services vendors.

The report provides a quantitative analysis of the significance of the sector in relationship to the whole market and to other industry sectors for overall IT related expenditure especially expenditure on IT Software & Services.

The Utilities Sector addressed in this report is defined by INPUT as follows:

- Electric utilities, which can be investor-owned, cooperatives, municipally owned or government owned.
- Gas utilities, which consist of pipelines (transmission) and distribution (local) companies.

- Water/sewage/waste disposal utilities, which can be publicly or municipally owned, or privately owned.

Within the Utilities sector the combination of new technology application and deregulation is wreaking profound change, most especially on the electric utilities.

The electric, gas and fuel markets are tending to converge into a single unified energy market.

This report covers the entire Utilities sector from the standpoint of the quantitative analysis of IT Software & Services expenditure.

Discussion of the industry trends, however, is focused mainly on the particular challenges being faced by the electricity supply industry.

B

Scope of the Report

This report specifically focuses on the Utilities sector, as defined above, in the U.S., from the perspective of the IT Software & Services industry.

The analysis of this sector provided in this report, covers total IT expenditure in general and IT Software & Services user expenditure in particular.

These areas are described in the sub-sections below.

1. Total IT Expenditure

Respective sections in the report analyze and forecast the total IT budget, including both internal and external IT-related spending. This comprises:

- Equipment sales — expenditure on computer and data communications hardware products.
- Software products — all expenditure on systems software products and applications software product licenses including support services where these are included within the basic license fee.

- Information services — all expenditure on professional services, systems integration, outsourcing, processing services, network services, turnkey systems, systems software product support services and applications software product support services, and equipment services which comprise equipment maintenance and environmental services.
- Communications — all expenditure on IT-related data communications services.
- Facilities — IT budget expenditure on overheads such as space, heating, lighting, furniture, vehicles etc.
- Staff — direct in-house staff costs including any temporary contract labor.

2. IT Software & Services Categories

The complete list of categories included within INPUT's definitions is as follows:

- Professional services.
- Systems integration.
- Outsourcing.
- Processing services.
- Network services.
- Systems software products.
- Applications software products.
- Turnkey systems.
- Equipment services.

3. Industry Sectors

INPUT defines the following industry sectors according to the most recent revision of the Standard Industrial Classification (SIC) code system:

- Discrete manufacturing.

- Process manufacturing.
- Transportation services.
- Telecommunications.
- Utilities.
- Retail trade.
- Wholesale trade.
- Banking and finance.
- Insurance.
- Health services.
- Education.
- Business services.
- Federal Government.
- State and Local Government.
- Miscellaneous industries.

The definition of these sectors by SIC code can be found in Appendix C, Terms and Definitions.

Additionally INPUT recognizes a separate set of Process or Cross-Industry sectors that have general applicability across all industries.

These sectors involve multi-industry applications such as human resource systems and accounting systems.

These process-oriented sectors comprise:

- Accounting/Finance.
- Human resources.
- Education and training.

- Office systems.
- Engineering and scientific.
- Planning and analysis.
- Sales and marketing.

Further descriptions of these sectors are provided in the Terms and Definitions section included in this report as Appendix C.

C Methodology

The data upon which this report is based was gathered as part of INPUT's ongoing market analysis program for the IT Software & Services business.

Trends, market sizes, and growth rates are based upon INPUT research, interview programs with users and buyers within the industry, and the vendors serving these industries.

In addition extensive use was made of INPUT's corporate library. The resources in this library include on-line periodicals, databases, subscriptions to a broad range of computer and general business periodicals, continually updated files on over 3,000 IT Software & Services vendors, and U.S. Government industry statistics.

It must be noted that in the case of *financial data* some vendors are unwilling to provide detailed revenue data by product/services group or industry.

Also, vendors often use different categories of industries and industry segments, or view their services as falling into different product/service groups than those used by INPUT.

In these cases INPUT estimates revenues for these categories on a best-effort basis.

The values used in many of the exhibits contained in this report have been rounded for ease of reference.

D

Report Structure

The remainder of this report is structured in the following way:

Chapter II, *Executive Summary*, provides an overview of the principal analyses and conclusions developed in the main body of the report.

Chapter III, *Utilities Sector IT Environment*, discusses changes, market issues and activities in the U.S. Utilities sector that can affect the current and future use of IT Software & Services.

Chapter IV, *Utilities Sector IT Market*, contains an analysis of total IT budgets and IT Software & Services expenditures in particular, within the U.S. Utilities sector. It provides forecasts for expenditure in these segments through to the year 2002 and provides comparisons to other industry sectors.

Chapter V, *Electronic Business Directions* is a discussion of the major driving forces causing organizations to redefine their business processes and reengineer their organization structures.

Appendix A provides a set of summary tables that form a supporting database for the market forecasts contained in this report.

Appendix B provides a reconciliation between the market assessments and forecasts shown in this report in comparison with those previously published by INPUT in 1996.

Appendix C provides a definition of the terms used in the analysis of the IT Software & Services market.

E

Related INPUT Research Programs and Reports

The following reports contain detailed analysis of each market sector, offering commentary and recommendations for vendors.

1.U.S. Reports

Desktop Services Opportunities for the U.S. - 1997

Evaluation of Business Continuity Services in the U.S.

IT Customer Services Market Analysis, U.S. 1997-2002

Evaluation of Digital Money Products in U.S. Banking

Impact of Digital Money on Banking, 1997

Evaluation of Federal Program Budgets, 1998

Federal Financial Management Systems Market 1996

Federal Imaging Market 1996-2001

Federal Information Systems and Services Market 1996-2001

Federal Information Systems and Services Market 1997-2002

Federal Telecommunications Market 1996-2001

Impact of Procurement Reform on Federal Government

Outlook for the Federal Professional Services Market 1996-2001

Evaluation of SAP Service Providers in the U.S., 1997

Evaluation of Firewall Solutions, U.S., 1997

Evaluation of Intranet Development Opportunities - U.S.

Outsourcing Vendor Performance Analysis - U.S.

Year 2000 Services Opportunities

2. European Reports

a. Europe Wide Reports

Desktop Services Opportunities - Europe

Evaluation of Business Continuity Services in Europe

Professional Services Market Forecast, Europe 1997-2002

SAP Services - U.S. User Perspectives

Evaluation of Internet Firewall Solutions, Europe

Evaluation of Intranet Development Opportunities - Europe

Customer Care and Billing Solutions within Telecommunications Providers in Europe, 1996-2000

Operational Services Market Forecast, Europe 1997-2002

Outsourcing Vendor Performance Analysis - Europe

b. French Reports

Evaluation des Opportunités de Services Micros et LANs France, 1997

Evaluation of Business Continuity Services in France

Evaluation of SAP Services Providers in France

Evaluation of Internet Firewall Solutions, France

Opportunités de Services autour d'Intranet, 1996-2001

Les Services D'Exploitation de Centres D'Appels, France

Outsourcing Vendor Performance Analysis - France

c. German Reports

Evaluation of Business Continuity Services in Germany

Outsourcing Vendor Performance Analysis - Germany

d. United Kingdom Reports

Desktop Services Opportunities – U.K.

Evaluation of Business Continuity Services in the U.K.

Future of Network Management Support in the U.K.

Evaluation of SAP Service Providers – U.K.

Evaluation of Intranet Development Opportunities – U.K.

Outsourcing Vendor Performance Analysis for the U.K.

3. Worldwide Profiles

Worldwide Market Profile, 1997-2002

Regional Market Profiles, 1997 - 2002

North America

Latin America

Asia Pacific

Western Europe

Central & Eastern Europe

Middle East / Africa

Country Market Profiles, 1997 - 2002

United States

Canada

Mexico

Australia

China

India

Japan

South Korea

Taiwan

Hong Kong

New Zealand

Singapore

Israel

South Africa

Argentina

Brazil

Venezuela

France

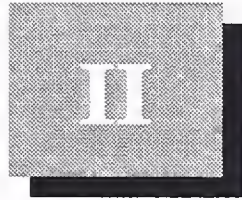
Germany

Italy

United Kingdom

Russia

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Executive Summary

A

Utilities Industry Shifts to IT Based Value-Added Services

The big story unfolding within the U.S. Utilities sector is deregulation and its economic impact on consumers, notably industrial consumers, see Exhibit II-1.

Exhibit II-1

Utilities Industry Future

**Utilities Industry Future
- United States**

Deregulation promises:

- **Competitive, efficient markets delivering 20-30% cost reductions by 2003**

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Source: INPUT

The trend towards deregulation commenced in the United States about 20 years ago with the enactment of the Public Utility Regulatory Policy Act.

Finally in 1998, the big experiment in deregulation is set to roll out with all eyes on the initial implementation in California.

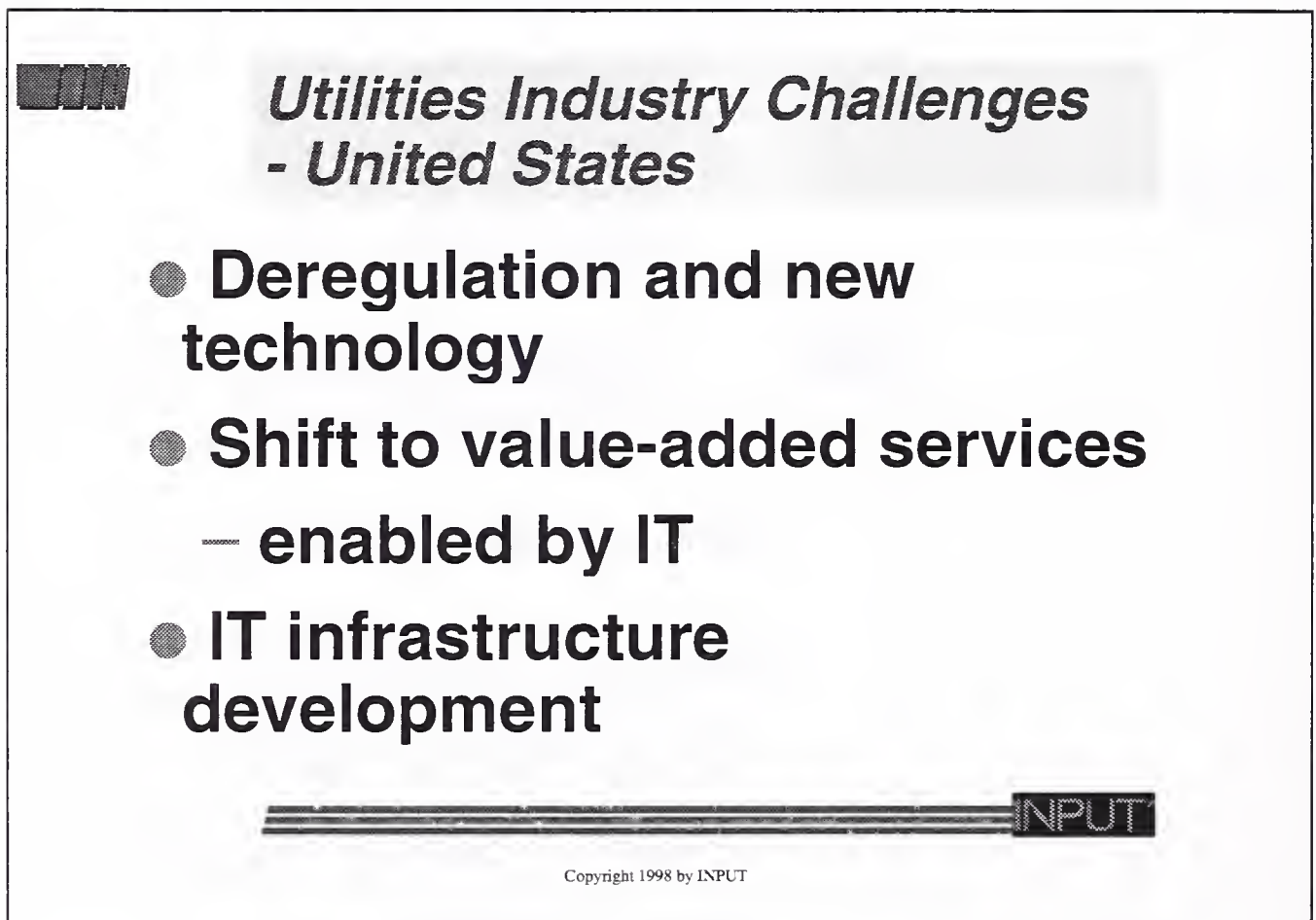
Altogether about half of the States in the nation are at some stage in the process towards deregulation.

Utility industry experts have predicted that eventually deregulation should lead to a decrease in electricity bills of between 20% to 30%. This could have a major economic impact since electricity can account for as much as 15% of a major industrial firm's operating expenses.

The Utilities sector, which was once a highly regulated industry, is thus now a sector undergoing rapid change, reference Exhibit II-2.

Exhibit II-2

Utilities Industry Challenges



***Utilities Industry Challenges
- United States***

- **Deregulation and new technology**
- **Shift to value-added services
— enabled by IT**
- **IT infrastructure development**

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A combination of the application of new technology and deregulatory forces is having a dramatic impact on the sector.

The Utilities sector now has to shift to a prioritization of IT-based value-added services as customer loyalty and customer satisfaction become of paramount concern in newly competitive environments.

To fully implement these changes, the Utilities sector is:

- Exploiting the deregulatory and technology driving forces shaping this dramatic shift in industry focus for commercial advantage.
- Applying IT investment to support the shift to value-added services for utility customers.

This Executive Summary also reviews the impact of these developments on IT expenditure, in particular expenditure on IT Software & Services, within the U.S. Utilities sector.

B

Utilities Industry Shifts Focus

Two separate but inter-dependent forces, deregulation and new technology, have challenged the historic Utilities sector industry model.

Deregulatory forces represent a change within the political environment that favor the introduction of competition and customer choice.

As a result of these changes the Utilities sector has witnessed a significant increase in the amount of computing required to support a more complex and more open value chain, see Exhibit II-3.

Exhibit II-3

Utilities Industry Changes Focus***Utilities Industry Challenges
- United States******Deregulation demands IT-enabling
systems for:***

- **Pricing**
- **Payments**
- **Customer services**
- **Bulk trading**



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Source: *INPUT*

A deregulated, more competitive industry has to be supported by complex commercial functions that can only be effectively and efficiently operated when built on an IT infrastructure.

Competitive, deregulated Utilities need to introduce flexible and market responsive pricing tariffs.

Likewise payments systems need to be re-built and integrated with advances like automated meter reading.

The new competitive environment requires a new emphasis on customer service typically now being addressed through call center development linked in with the billing system for common access to the customer database.

The disaggregation of the old regulated industry model has introduced the need for far more flexible and responsive bulk trading schemes.

Complex real-time trading of energy supplies can only be operated effectively using advanced computer systems to support and track the transactions being effected.

However, Information Technology is not the only technological development force to have made an impact on the Utilities sector, see Exhibit II-4.

Exhibit II-4

New Technology and the Utilities Industry

**Utilities Industry Challenges
- United States**

New Technology:

- **Economic small-scale gas-fired generators**
- **Information technology enables utility processes**

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Source: INPUT

The other significant technological development to affect the Utilities sector has been driven by the emergence of plentiful supplies of cheap gas for fuel.

Cheap gas was assessed by the industry as a long term condition, experts have estimated at least 200 years supply with currently known reserves.

The availability of plentiful supplies of cheap gas led in turn to significant investment in gas-fired generators, which led in turn to the development of small-scale gas-fired generators.

Environmental issues also spurred these developments as gas-fired power plants are claimed to emit 40% less carbon dioxide than coal-fired plants.

Allied Signal and Ballard Power Systems are two firms actively engaged in the development of small-scale gas-fired generators.

These developments have naturally led to the possibility of localized power generation that is economically competitive with supplies from the national grid.

This opportunity could represent an historic reversal for the development of the electricity generating industry.

Were this development to gain a significant foothold in the market it would represent a return to the situation that prevailed in the early decades of the 20th century when most factories generated their own electricity supplies.

The developing deregulated model of the Utilities sector is placing great emphasis on cost reduction and process efficiency.

These imperatives are only being met through a significant reengineering of business processes uniquely enabled by IT systems.

C

Business Development Focus for the Utilities Industry

The developing competitive environment in the Utilities sector is placing a new emphasis on customer relations, see Exhibit II-5.

Exhibit II-5

Utilities Industry - Value Added Services

**Utilities Industry Challenges
-United States**

Develop value-added services for:

- **Customer loyalty**
- **Customer satisfaction**
- **Customer communication**

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Source: INPUT

The new emphasis on customer relations is placing increasing emphasis on the extension and development of existing customer relations processes.

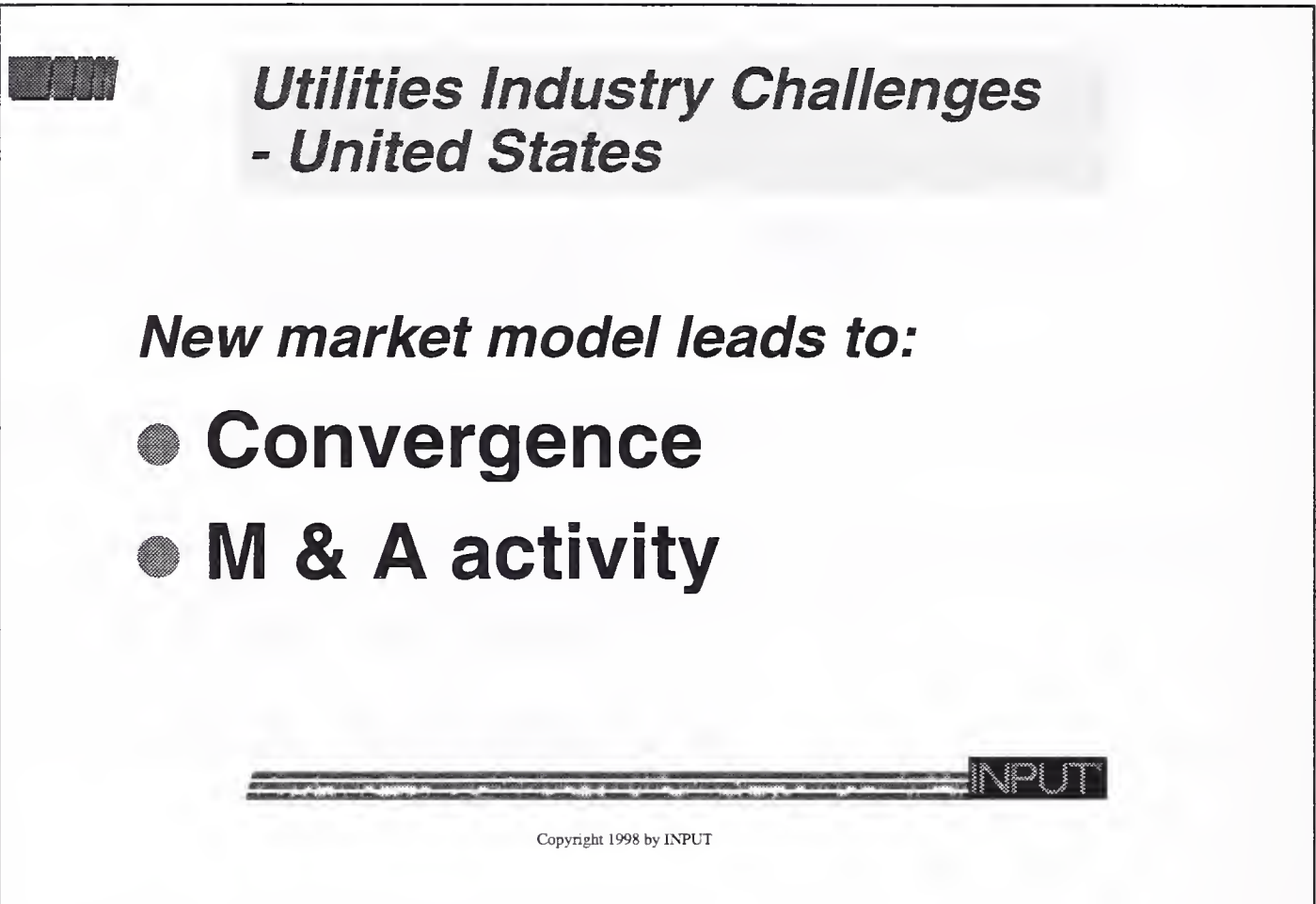
These initiatives are being designed to improve the overall relationship with the customer base.

One example of the need for this, beyond simply customer retention in a competitive environment, is the general public's concern over environmental issues and the need to communicate with customers on these issues.

A number of other important business challenges are facing Utilities industry executives as a result of the new competitive and technological environment, see Exhibit II-6.

Exhibit II-6

New Market Model Challenges



**Utilities Industry Challenges
- United States**

New market model leads to:

- **Convergence**
- **M & A activity**

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Source: INPUT

One of the most profound changes is the tendency for convergence of electricity, gas and fuel markets into a single unified energy market. This move has been strongly championed by Enron.

There exists also a tendency towards convergence of classical utility supply at the customer interface, thus implying the possibility for water/sewage services to also join together to create unified energy/utility suppliers.

In this environment, Utilities organizations have the opportunity to seek new ways to maintain or increase their earnings growth.

Newly deregulated Utility firms will seek to leverage their capital resources, technology and services know-how, particularly where this relates to efficiency and productivity.

At the same time a belief in the supposed benefits of globalization will also be a driver for privatized firms that believe they can create viable multi-national energy/utility businesses.

These tendencies create the conditions for Merger & Acquisition (M & A) activity to become prevalent and this has already manifested itself on an international basis. For example Calenergy's acquisition of Britain's Northern Electric.

D

Utilities Industry IT Development

Total IT related expenditure in the Utilities sector in 1997 accounted for 2.5% of the all industry U.S. total.

However, as an industry it ranked above average for the proportion of total revenues spent on IT (5.7% against a U.S. all industry average of 3.9%).

The Utilities industry ranked as the third highest growth sector in terms of expected expenditure on IT related services (a 17.2% CAGR for the period 1997 to 2002).

The Telecommunications sector (20.4% CAGR) and the Discrete Manufacturing sector (18.2% CAGR) are the two fastest growing sectors for IT.

The CAGR for the total of all U.S. industry sectors is forecast at 16%.

Exhibit II-7 shows three important areas of focus for IT in the Utilities sector.

Exhibit II-7

IT Development in the Utilities Industry

**Utilities Industry Challenges
- United States**

IT development for:

- **Customer care & billing**
- **Y2K compliance**
- **Infrastructure management**

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Source: INPUT

Historically, Utilities sector organizations had focussed their customer systems on billing. Now the customer service dimension is being added

Significant investment must now be devoted to the extension and development, or the complete replacement, of existing customer information systems in order to support these new competitive market requirements.

The Y2K millennium issue is critical for the Utilities industry since it is the provider of the vital ubiquitous energy source (electricity) for society as a whole.

In addition the Utilities industry has specific regulatory requirements to meet in respect of safety and the continuity of supplies.

The fact that the industry operates a significant number of nuclear facilities has also made the Y2K issue key.

It is claimed that more than 90% of safety related systems in nuclear plants are analog, nevertheless many systems are digital and require Y2K compliance.

A nuclear plant may have between 1,000 and 2,000 applications and between 200 and 600 hardware devices containing embedded systems.

Fossil fuel based generating plants may be perceived to be less risky but do face some unique issues. These include environmental emissions compliance, plant room control and time-dependent fuel delivery systems.

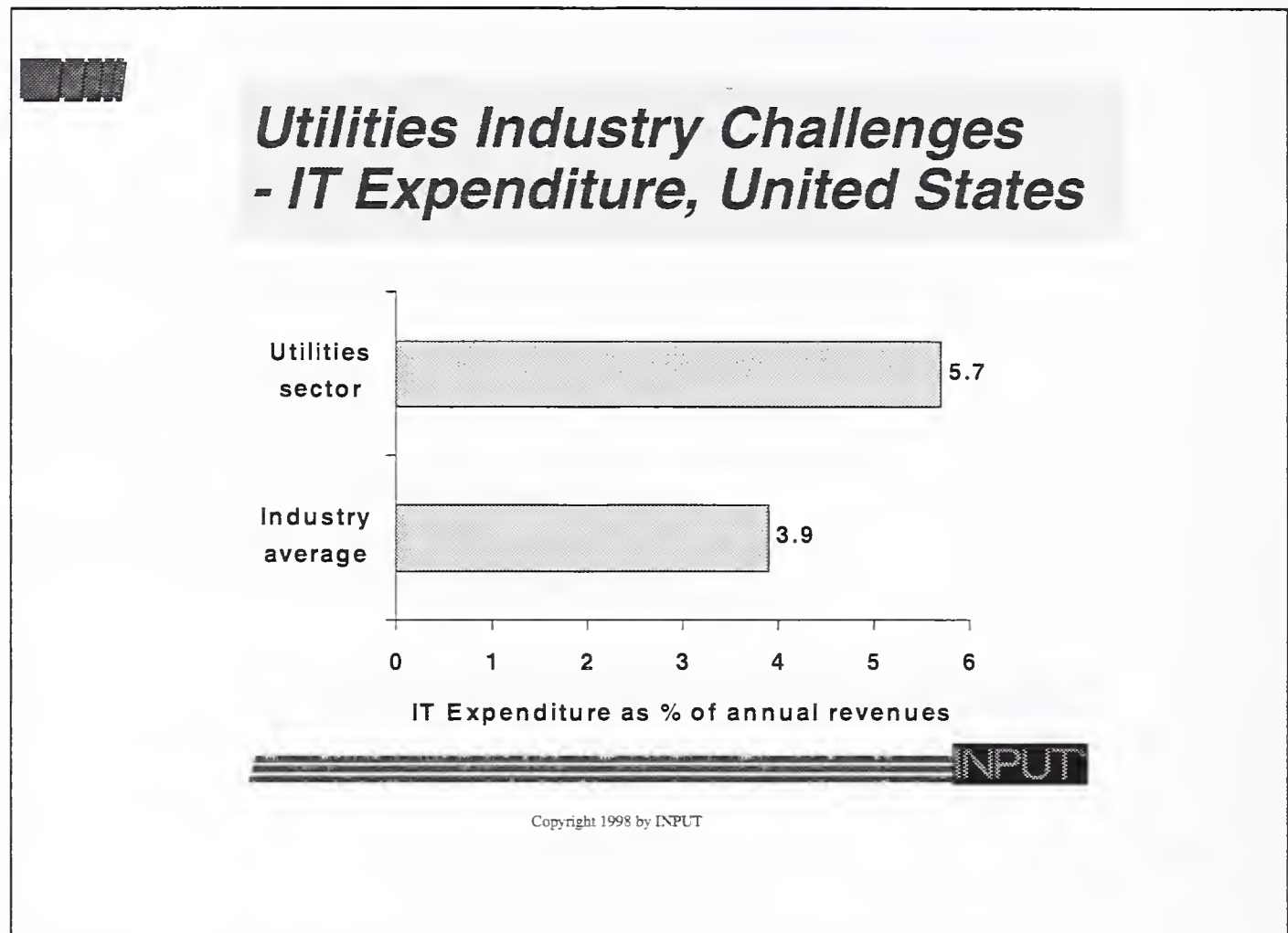
There are many other areas of new technology development for the Utilities sector that support and develop its overall infrastructure. These include:

- Automated Mapping/Facilities Management/Geographic Information Systems (AM/FM/GIS).
- Supply Chain Management.
- Data Mining/Data Warehousing.
- Document Management.

Exhibit II-8 shows the average percentage of annual revenues spent on IT by the Utilities industry.

Exhibit II-8

IT Expenditure in the Utilities Industry



Source: INPUT

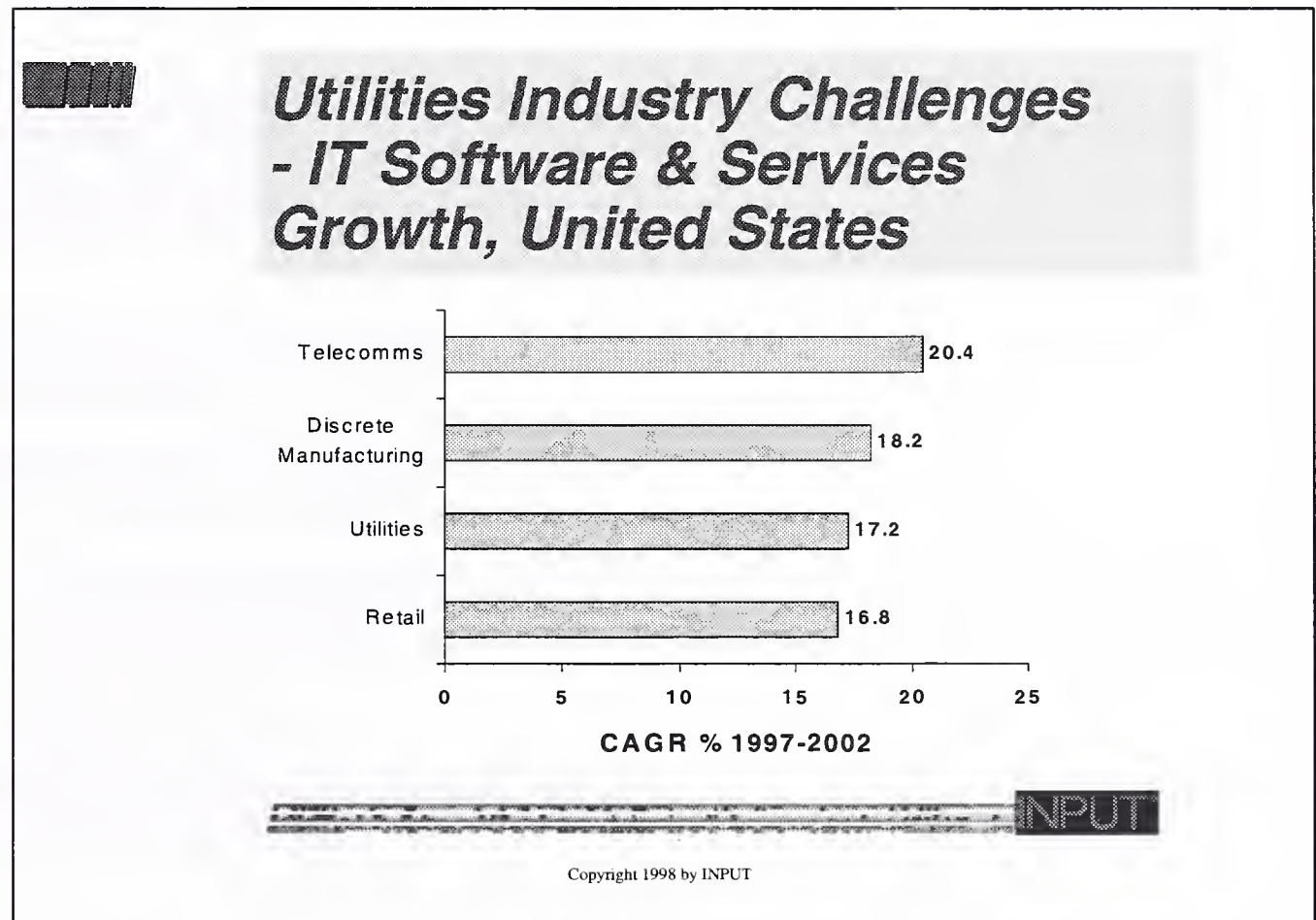
Although the ratio for the Utilities sector is an above average figure it is well behind key IT spending sectors like Telecommunications (17.5%), Insurance (12.5%) and Banking & Finance (11.2%).

The Utilities sector has a relatively strong expenditure on services related to IT and a lower than average expenditure on software products.

Exhibit II-9 shows the leading industry sectors in terms of expected growth for IT Software & Services.

Exhibit II-9

Comparative Industry Sector Growth



Source: INPUT

Above average IT Software & Services growth is being fueled by the particular circumstances of the Utilities sector overall. The deregulation of energy markets and the introduction of competition is spurring the roll-out of new IT systems to provide operational support.

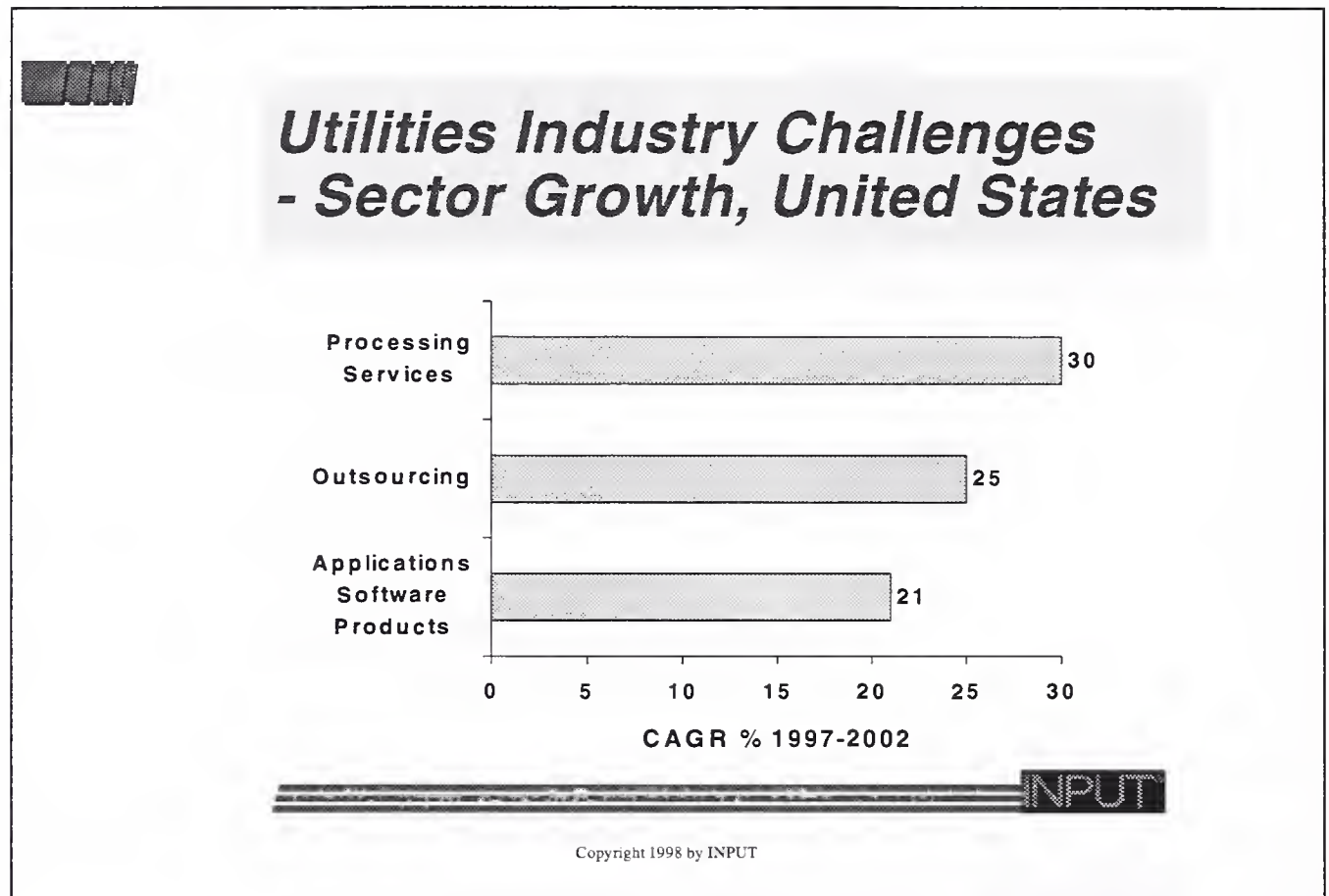
These new commercial pressures are, as already referenced, driving specific application needs, notably Customer Care & Billing, AM/FM/GIS systems and supply chain management systems.

At the same time the Y2K issue is particularly critical for the Utilities industry because of the industry's power generation role.

Exhibit II-10 indicates the key IT Software & Services sectors that are generating this high growth.

Exhibit II-10

Key Utilities Industry IT Services Sectors



Source: *INPUT*

Processing Services and Outsourcing growth in the Utilities sector are being driven by the challenge of balancing new IT investments with the need to maintain legacy systems in an environment of severe skill shortages.

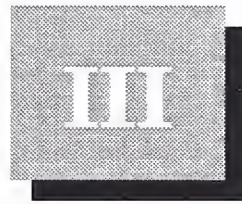
Additionally the demands for new capital investment in all areas, not just IT, make external service solutions and outsourcing attractive financially.

Processing Services growth in the Utilities sector is expected to be well above the average for all industries of 16% per annum over the next five years.

Outsourcing growth in the Utilities sector will be just a little over the industry average figure of 23% per annum.

The Applications Software Products sector will also demonstrate strong growth as Utilities seek more standardized solutions from ERP and related vendors. Industry average growth for Applications Software products is expected to be at a CAGR of 19%.

The Network Services sector within the Utilities industry will be driven by increased use of EDI and supply chain management systems to create electronic links with extensive networks of suppliers.



Utilities Sector IT Environment

A

Utilities Sector Overview

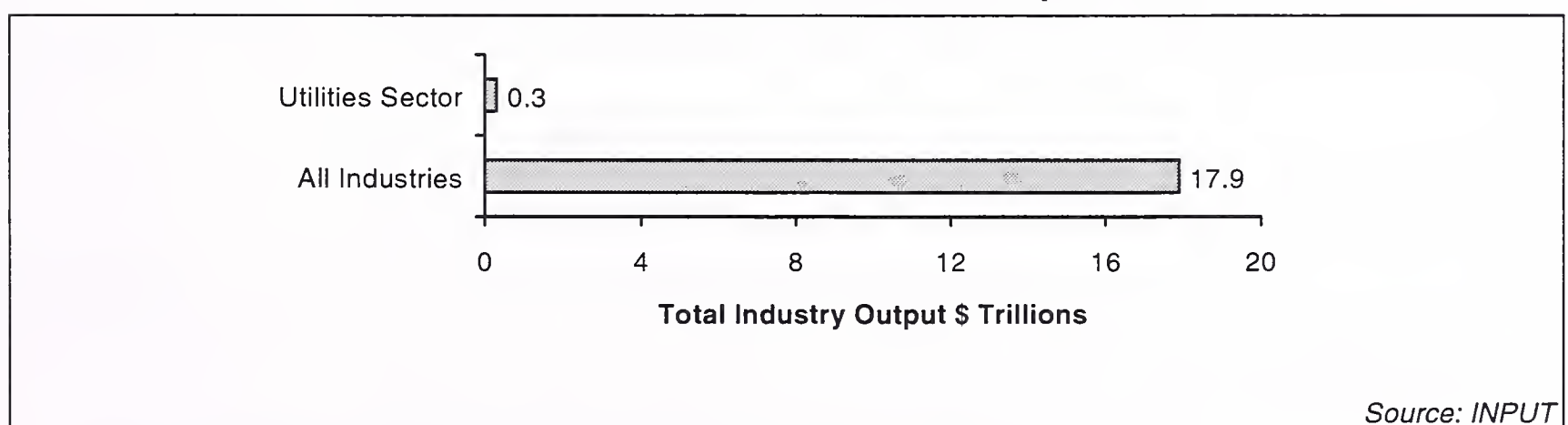
1. Macroeconomic Context

Globally the Utilities sector generates output estimated to total about \$1.2 trillion annually. The U.S. Utilities sector accounts for around 25% of the world total.

The Utilities sector accounts for just 1.7% of the total economic output of the global economy, see Exhibit III-1.

Exhibit III-1

The Utilities Sector and Total U.S. Output - 1997

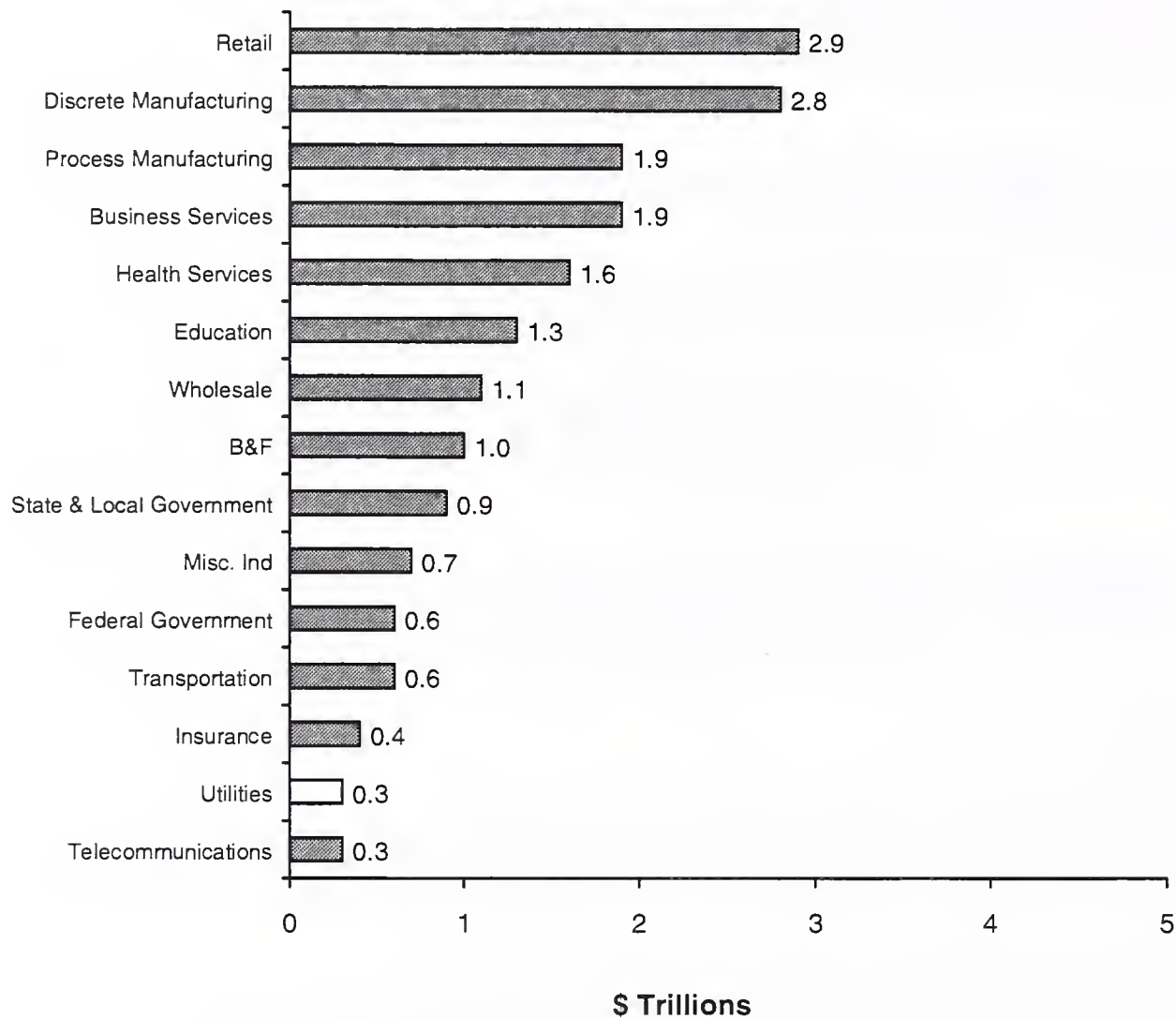


The Utilities sector is the third smallest industry sector measured by output, although it is of course a very critical one. The industry is defined using the industry classification set out by INPUT in detail in Appendix C for the purposes of this analysis.

A comparison of the relative size of the total worldwide output for each industry sector is shown in Exhibit III-2.

Exhibit III-2

Total Estimated Output by Industry Sector – U.S., 1997



Source: INPUT

The analysis above measures the total output of each industry sector without regard for the inputs and outputs between sectors. Consequently this analysis is done on a completely different basis from that used to calculate GDP.

Total industry output measures the total value of goods and services produced by each industry without eliminating intra-industry and inter-industry trading.

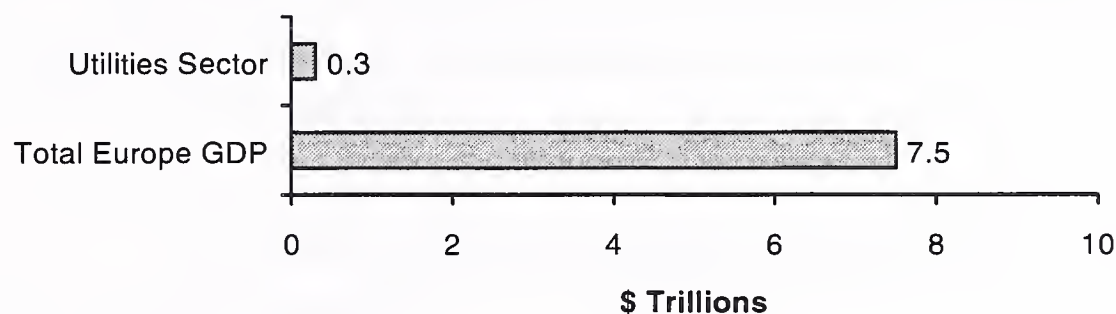
GDP estimates are specifically designed to remove these elements from the calculation.

The Utilities industry sector measured as a proportion of total worldwide GDP amounts to about 4.6%.

A comparison between the relative size of GDP and the measurement of total economic output used here is shown in Exhibit III-3.

Exhibit III-3

GDP and Total Utilities Sector Output – U.S., 1997



Source: INPUT

INPUT uses the total economic output approach in this report, as it is a more meaningful way to conduct a subsequent analysis of the total significance of IT expenditure to the sector.

The metric that is important to industry executives and managers in respect of total industry output is the proportion of IT expenditure to the organizations total revenues or expenses.

The overall proportion of IT expenditure for a sector related to its total output is the benchmark for IT expenditure at the individual firm level. This is discussed in the next chapter.

The electricity supply industry is the most important part of the Utilities sector globally and is the sub-sector of the industry that has undergone

the most radical change in recent years as a result of the combination of new technology application and deregulation.

One of the major results of these forces is that the electric, gas and fuel markets are tending to converge into a single unified energy market.

Consequently the electricity generation and supply part of the Utilities industry sector has become an important focus for IT vendors.

The nature of the electricity generation and supply industry is a value chain comprising a variety of specific activities:

- Power plant construction.
- Fuel purchasing.
- Power plant operation.
- Developing and maintaining transmission network infrastructure.
- Operating transmission and distribution networks.
- Bulk electricity trading.
- Customer supply and metering operations.
- Customer care, billing and accounting systems operations.

Historically the model for the electricity supply industry has been that of highly regulated, monopolistic firms.

The industry structure resulted from the viewpoint of early industry leaders like Edison who forecast that electricity could be made more and more cheaply and that this benefit could be most effectively produced by a vertically integrated monopoly.

For most of the 20th century this forecast was fulfilled by engaging economies of scale.

Bigger power generation plants were built whether utilizing fossil fuels, nuclear power or hydro-generation techniques.

Transmission and distribution networks were also established to provide load-sharing capabilities that enabled power plants to operate continuously and therefore more cost effectively.

Since monopoly power can be abused it was a natural development that government regulation should become established.

The regulatory authority exists under government control to set price limits and service levels, monitor financial performance of the utility and determine which fuels are to be used and the environmental standards that are to be achieved.

In the U.S. the deregulatory process started about 20 years ago with the enactment of the Public Utility Regulatory Policy Act. The next subsection discusses these changes and their overall impact on the sector.

2. Key Challenges for the Utilities Sector

The traditional or government regulated monopoly model in the Utilities sector has come under challenge from two principal directions:

- Deregulation.
- New technology.

a. Deregulation

As early as twenty years ago a few governments began to question the monopoly industry model already described above.

The economic stimulation of this trend was supplied by the emergence of lower cost gas for fueling electricity generation powerplants.

The availability of lower cost gas in turn created the conditions under which investments were made in small-scale gas-fired power generation equipment and this point is elaborated upon below in the next subsection.

The two trends, deregulation and the impact of new technology have, however, complemented each other.

The trend towards deregulation has manifested itself into two inter-related changes that are having a profound impact on the U.S. Utilities sector. These are:

- Competition.
- Customer choice.

Competition in the supply of electric power is now considered as a viable alternative to government regulation as a way of setting prices and controlling the financial performance of the generators.

The introduction of competition means that competitive market forces can be used to set the price of electricity, principally the price of power being transmitted from the power plant.

Customer choice means that users should be able to select their supplier and the terms under which they receive that supply rather than these factors being determined by the monopoly utility alone.

The trend towards introducing customer choice is fueled by the possibility of achieving lower prices for consumers, particularly industrial users, and business demand for new products and services.

Utility industry experts have predicted that eventually deregulation could lead to a decrease in electricity bills of between 20% to 30% across the nation. This could have a major economic impact since electricity can account for as much as 15% of a major companies' operating expenses.

For the Utilities industry in particular a very important factor has also been the requirement for new capital to invest in state-of-the-art new generating capacity.

A further demand on capital has been the need for refurbishment of existing power generation capacity to meet increasing demands for higher level environmental standards.

The need for capital in the Utilities industry has been estimated by McKinsey, the management consultants, at in excess of \$1 trillion globally over a period of about ten years.

This amount should be seen in the context of the INPUT estimate that the annual output of the entire global Utilities industry was \$1.2 trillion in 1997.

As a result of these changes in the Utilities sector environment, the industry finds itself going through a period of profound change.

Electricity generating and supply organizations in the U.S., are and will need to go through radical changes that will affect not only their structure but also their economic business model.

Naturally some states and some utilities are moving faster than others. The full transition is likely to take place gradually in order to ensure continuity of services and to minimize the stress on changing infrastructures, notably for computer systems.

Currently the focus is being placed on the experience of California in its moves to deregulate the industry and foster competitive market conditions.

b. New Technology

Two broad areas of technological development have been critical for the Utilities industry:

- Small-scale gas-fired generation equipment.
- Information technology.

As already referenced above the emergence of deregulatory and liberalizing thinking in government related to public utilities coincided with the emergence of plentiful supplies of cheap gas for fuel.

Cheap gas is not perceived in the industry as a short-term phenomenon. Little medium term change is expected by industry experts in respect of this fuel source as it is estimated that with known reserves and current rates of consumption that the world has about 200 years supply available.

Cheap gas instigated investment in research on small-scale gas-fired generators.

An additional factor driving research in this direction is the environmental issue. Gas-fired powerplants are claimed to emit 40% less carbon dioxide than coal-fired plants.

Commitments were made at the environmental conference in Kyoto, Japan in December 1997 to reduce greenhouse-gas emissions. This implies the substitution of coal-fired electric generating capacity with gas-fired capacity.

Allied Signal is one firm that is making significant investments in the development of small gas-fired turbines for the generation of electricity.

Another firm, Ballard Power Systems of Canada, has predicted that it will be able to sell a 250KW generator to small industrial enterprises or similar establishments, e.g. a shopping mall, at prices that will be competitive with the available national grids.

One of the interesting developments that is likely to emerge from this technology is more and more on-site power generation.

This would be a major reversal of the historic centralized generation paradigm of the electricity generation industry based on the force of economies of scale.

Interestingly this would signal a return to the situation that prevailed in the early years of the electricity industry this century when most factories generated their own electric power.

The second major technology factor for the Utilities sector has been Information Technology.

The principal impact of Information Technology systems on the Utilities sector has been to make possible the vast amounts of data processing that are needed to support the more complex, open value chain, business model that a deregulated industry demands.

A deregulated, competitive and privatized industry has to be supported by complex commercial functions for:

- Pricing.
- Payment systems.
- Customer service systems.

It is only through the introduction of IT based process management systems that these challenges can be addressed.

The new competitive environment being introduced into the Utilities industry will force a focus on cost reduction and process efficiency.

These will in turn lead to significant reengineering of internal processes, purchasing systems and the delivery of improved customer service in an economic way.

It will further force a re-examination of the specific businesses that the organization addresses as the monopolistic industry model fragments.

The competitive environment and the ensuing price competition also point towards the need to develop and introduce higher value-added services to maintain and enhance customer loyalty and satisfaction.

These higher value-added services are a key feature of the Electronic Business environment. They are derived and built from business systems that can only be built and delivered with the support of sophisticated IT systems. They confer significant competitive advantages to their suppliers.

Many other industry sectors are exhibiting this trend towards higher value-added service provision, for example the logistics industry, travel services and of course IT services.

The principal IT issues and trends affecting the Utilities sector are explored further in Section C. below.

In addition to computer processing the developments in the telecommunications technology sector are also of considerable significance to the Utilities sector.

For example telecommunications technology is being developed for automated meter reading via cable or wireless networks.

Wireless technologies are likely to be increasingly adopted in order to improve customer services and thus brand loyalty in an ever more competitive environment.

In a parallel but different sphere of activities Utility organizations are developing or exploring the leveraging of their existing transmission infrastructure and support functions to enter the data and voice communications business.

B

Background Trends and Economic Assumptions**1. Utilities Sector Trends**

Other important trends that are likely to be of importance to the Utilities sector in the U.S. include the following:

- Convergence.
- Mergers and acquisitions.
- Disaggregation and restructuring.

The topic of convergence was alluded to in the previous section. Convergence concerns external as well as internal activities.

External convergence could include activities involving the information technology industry and the telecommunications industry.

Internal industry sector convergence would imply adoption of the integrated energy/utility supplier concept that would encompass gas and water/sewage services as well as electricity.

The incidence of merger and acquisition activity in the Utilities sector is notably on the increase.

Privatized organizations will seek new ways to maintain or increase their earnings growth.

Utilities firms will seek to leverage their capital resources and technology and service know-how, particularly where this relates to efficiency and productivity.

A belief in the supposed benefits of globalization will also be a driver if privatized firms believe that they can create viable multi-national energy businesses.

Complementary to these initiatives will be the trend towards disaggregation and restructuring.

This trend will be a natural development of the breaking apart of previously monopolistic utilities as managers examine their cost models within the new realities of a competitive and deregulated business environment.

2. Overall Economic Assumptions

The forecast for the Utilities sector IT Software & Services market contained in this report are based on a fundamentally positive economic scenario.

However concerns exist about the Far Eastern economic crisis and its possible knock-on effects for the global economy as a whole.

It should, however, be recognized that a far worse financial impact, than that assumed here, could yet impact the global economy. This is a continuing risk until the Japanese authorities have demonstrated that they have taken sufficient action to stabilize their economy.

Some economic uncertainties exist even for the buoyant U.S. economy.

Of particular relevance are:

- The possibility of a stockmarket 'correction' that would affect business confidence generally and thus could inhibit IT investment decisions.
- The deteriorating economic stability of the Far Eastern nations, most importantly Japan.
- The issue of the supposed "new economic paradigm" in which the advanced economies are expected to enjoy years of continued economic growth and low inflation as a result of the erosion of the traditional 'business cycle'.

The "new economic paradigm" is based on the theory that technology development and global competition have created a uniquely benign environment for economic growth to continue unhindered by the ups and downs of the normal business cycle.

Technology, particularly IT, it is argued, has improved productivity to such an extent that traditional economics no longer fully applies.

An example of this is computer based JIT systems that eliminate most inventories, one of the key causal factors in the mechanics of the business cycle.

At an overall economic level these arguments are hard to sustain and it would be a high-risk strategy to base forecasts on this scenario.

One of the major counter arguments is the lack of firm evidence to support significant measured productivity improvements in service industries, the most highly developed users of IT systems.

This productivity paradox, huge investments in IT to achieve productivity improvement but little evidence to support it at an industry level or at a macro economic level, is possibly explained by neo-classical economics.

The argument centers on the observation that IT equipment has had the peculiarity of falling rapidly in price even as its functionality has increased, as a result IT has been applied to less and less valuable tasks.

In formulating the forecasts contained in this report INPUT has basically assumed that overall economic growth will continue in the U.S. over the forecast period according to currently predicted rates, without massive shocks imposed from other parts of the world, specifically the Far East.

Economic assumptions for the U.S. economy are summarized below.

Economic growth:

-Official growth target for 1997, 3.8% and 2% targeted for 1998.

Employment:

-50% of the U.S. population is presented within the working population.

Unemployment:

-5.4% level for 1996 declined to a slightly improved 5% in 1997 and is expected to increase slightly to 5.1% in 1998.

GDP Deflators are estimated at:

1996 – 2%

1997 – 2%

1998 – 2.2%.

C

Information Systems Environment

The U.S. Utilities sector in total only accounted for 2.5% of all IT related expenditures in 1997. However, as an industry it ranked above the U.S. average for the proportion of total industry revenues (industry output) spent on IT related activities.

The Utilities industry averaged 5.7% of annual revenues spent on IT in 1997 compared to the average across all industry sectors of 3.9%.

Chapter IV below provides a detailed analysis of IT related expenditure, and specifically of IT Software & Services expenditure within the sector. Chapter IV also provides comparisons with other industry sectors.

The significance of IT to the Utilities sector has already been referenced in the previous sub-section.

The IT challenge for Utility organizations is the allocation of appropriate investment funds in competition with all of the other demands on capital as the industry progresses through a period of significant restructuring.

Three IT related areas are discussed below:

- The Y2K Millennium issue.
- Customer Care & Billing Systems.
- Other IT areas e.g. AM/FM/GIS.

1. The Y2K Millennium Issue

The Y2K Millennium bug issue is rapidly becoming a major issue for the Utilities industry.

Like other industry sectors preparedness for it seems weak with every indication that only now are Utility sector managers and executives really waking up to the full implications for their sector.

However, unlike a number of other industry sectors, the Utilities industry not only provides the critical energy for modern society and commerce to function but also has particular regulatory requirements to meet in respect of safety and the continuity of supplies.

These requirements are shown in particular relief in respect of the nuclear power generation part of the industry.

Some regulatory authorities may demand that each nuclear facility, for example, prove conclusively that it is Y2K compliant or be shut down prior to the Millennium. Some experts believe that it will not be possible to prove that any plant or organization is fully Y2K compliant.

Y2K compliance at a nuclear facility is likely to include at least a detailed review of all systems linked to safety measures, the following is representative:

- Electro-mechanical systems such as reactor control, turbine control, event logging, safety related embedded control systems, emergency core cooling systems etc.
- Nuclear safety-significant administrative systems such as plant maintenance scheduling and commitment tracking.

Some industry observers have tried to play down the Y2K threat for nuclear facilities. The claim is that it may not be that significant an issue due to the fact that analog technology predominates.

It has been estimated that in a typical nuclear power plant more than 90% of the safety-related systems are analog, that they are not driven by digital computers, do not use data-bases to support them and do not have date driven functions.

This may be reassuring but the fact remains that there still exist plenty of systems that are digitally based, for example surveillance, testing, emergency management, event reporting and other safety-related systems.

All of these systems are required to be operational if the plant is to continue running.

The distinguishing characteristic of nuclear power generation plant in comparison to those using fossil fuels is the greater range of automatic safety and support systems. Consequently the Y2K issue is as much an issue of scale as it is of complexity.

For example a nuclear plant may have between 1,000 and 2,000 applications in total and between 200 and 600 hardware devices containing embedded systems.

Fossil fuel based generating plants may be less at risk than nuclear plants but face some unique issues of their own. These will include environmental emissions compliance, plant room control and time-dependent fuel delivery systems.

Time dependent fuel delivery systems may cause particular concern since the fuel is delivered by third parties, e.g. a railway freight operator, that may not be Y2K compliant in all of their systems.

It is also important to note that skepticism should be maintained with regards to Y2K compliance statements made by other organizations, whether trading partners or vendors of IT products.

As for many other sectors of industry and commerce a major problem for the Utilities sector is that not enough time and attention or money has as yet been applied to the Y2K issue.

2. Customer Care & Billing Systems

The new competitive environment being ushered in to the Utilities sector is placing a new emphasis on customer relations.

This is in turn placing increasing emphasis on the extension and development of existing customer information systems in order to adapt them to new business requirements.

A further driving force for customer information systems is environmental concerns.

These are causing Utilities to see as crucial the need to communicate with their customers to address and allay fears concerning the installation of new power generation plants.

They are also of value in keeping the public informed when a major power outage occurs or when some other customer facing issue arises.

Historically, Utilities sector organizations had focused their customer systems just on billing. Now new dimensions are being added as the focus on customer retention and marketing become important competitive factors.

For example a focus on customer care capabilities.

For some Utilities customer care and billing systems will need to accommodate the requirements of maintaining independent marketer relationships.

3. Other IT Investment Areas

An enormous variety of applications areas exist within the Utilities sector.

One of the significant characteristics of Utility sector data processing needs is the huge amount of data.

In addition to huge customer databases Utilities need to store and access a vast amount of data associated with the location of their facilities in the geographic area they cover. It is in this latter area where Utilities have significant needs for handling 3D/4D, seismic and other real-time feeds.

Consequently the Utilities sector is an attractive market for powerful databases and supporting information management tools.

In addition to the increased use of IT solutions to help address the cost saving and competitive needs of management, the industry must also maintain systems that document regulatory compliance and that are available at all times to the regulatory authorities.

Nuclear systems, in particular, need to retain lifetime records. For example, plant description documents and operations records must generally be on-file and available for 10 years after a plant de-commissioning.

This implies a 40-year span in total for record keeping. Personnel records usually need to be maintained for a similar period.

Some of the most important applications of IT in the Utilities sector today are:

- Automated Mapping/Facilities Management/Geographic Information Systems (AM/FM/GIS).
- Supply Chain Management.
- Data Mining/Data Warehousing.
- Document Management.

AM/FM/GIS systems are of wide applicability to the Utilities sector. Suppliers of such systems include firms like Intergraph Corporation and CADTEL Systems, Inc.

These systems offer enormous potential benefits to Utilities organizations, principally in enabling them to automate control of their complex distribution and transmission systems.

These systems usually require that all facilities data is converted into a database at the outset of the project. Subsequently the applications are developed to utilize the data.

Unfortunately many potential AM/FM/GIS type projects are held back or cancelled because of the extremely high cost of carrying out the data conversion at the outset of the project.

For example, a Utility serving some 1.7 million electricity customers estimated data conversion costs at anything between \$20 million and \$40 million.

Utilities are advised to evolve their use of such systems by reversing the process. This is effected by getting the applications to drive the data conversion requirement and thus to convert data only as it becomes necessary.

Additionally the applications schedule can reflect the desirable aim of getting multiple applications running off the same data.

For example applications such as Transformer Load Management (TLM), Feeder Analysis and Outage Analysis are three that can all be run off the same database.

Supply Chain Management is an area coming strongly into focus as the Utilities industry seeks to reduce costs, reengineer internal processes and improve its external transactions with suppliers.

Supply chain management improvements are important to the Utilities industry because the value of materials and services purchased for capital or operational purposes are typically about 50% of non-fuel operating expenses.

Some indication of how valuable supply chain management improvements can be to the Utilities industry is given by the following statistics:

- Lead times for materials reduced by 90%+.
- Supply chain process expenses reduced by 40%+.
- Prices for goods and services reduced by up to 10%.

In addition Utilities firms that have implemented Supply Chain Management systems have cut inventories significantly and gained advantage from improved management data for financial control and operational support.

Data Mining/Warehousing technologies can also have significant potential for the Utilities sector.

Utilities sector organizations have amassed over the years a substantial volume of demographic, transactional and usage data.

Data mining and data warehousing applications offer the opportunity to exploit this data for competitive advantage and increased sales, for example through:

- Market segmentation and targeted offerings to consumers.
- Identifying potential new customers.
- Including cross selling where appropriate in monthly billing statements.
- Identifying the potential for possible added value services.

Other application areas are Computer Aided Design and Engineering (CAD/E), Document Management and Workflow systems.

The development of new business in the Utilities sector has placed document creation, production and control under the spotlight of cost reduction.

The typical document related problems of time spent keying and rekeying customer data, proofreading and collating documents, are a major issue for Utilities organizations.

The Utilities industry thus represents a major opportunity for vendors to support the automation of document production and assembly in order to eliminate manual tasks and reduce costs.

If automated document production is controlled by the users within the organization, customer service is enhanced and productivity is improved because of the initial accuracy of the data entry being maintained throughout the system.

Document management is a particularly important application for the support of productive maintenance operations. Fast, consistent access to current data is what, for example, drives efficient repair processes.

D

Representative IT Vendors Serving the Utilities Industry

This section contains brief descriptions of the Utilities sector related activities and capabilities of a number of representative vendors serving the industry.

1. Altris Software, Inc.

Altris Software provides document solutions to the Utility.

Altris Software's products are designed as toolkits that can be linked to other applications. They are designed to do this in a way that does not require modification of the underlying applications database. The benefit of this to the Utilities operator is that this usually means that regulatory re-certification is not necessary.

Altris Software's client/server product components are available on a variety of platforms including UNIX (Sun Microsystems, H-P, IBM and Silicon Graphics) and Microsoft Windows systems.

2. Andersen Consulting

Andersen Consulting recognizes the Utilities sector as a major focus of its activities, as is evidenced by its *Utiligent* enterprise and its Utilities Industry Center of Expertise.

Andersen Consulting launched its Utiligent enterprise in June 1996. The purpose of the enterprise being the provision of a Utilities sector specific customer service system to be delivered on a subscription basis via a network.

One of the principal drivers for the Utiligent system was the need for more active customer management in newly deregulated Utility sector markets.

Andersen Consulting believes that through improved customer services functionality, a more pro-active form of customer management can be practiced in order to address the issue of customer retention.

In addition to customer service functions the system offers other customer related delivery functions geared to the de-regulation of the US Utilities market. These functions include flexible pricing capabilities as well as marketing functions.

The systems are delivered completely on client/server technology; the only mainframes involved are those operated by the Utility sector client. Once the system is connected to the Utiligent network the functions are accessed and purchased on a per-transaction basis.

The Utiligent system provides for advanced billing functionality in order to replace tasks that are often completed manually, customer commitment scheduling, customer outage information, customer-based billing and point-of-sale telemarketing of related services.

Andersen Consulting has formed a joint venture with BBN Corporation in order to establish the service over the Internet rather than on a private network. The network service is intended to provide:

- An electronic suite of essential business processes such as billing and order processing.
- Data operation centers delivering 24x7 service throughout the year.
- Secure network infrastructures to support multiple levels of privacy and fully meet client requirements for performance and availability.

The Utiligent system was based on a system developed and installed by Andersen Consulting at a US based utility, Northern States Power in Minneapolis.

Andersen Consulting also offers a Utilities Industry Solution as a configuration tool for use with SAP R/3 systems. It features:

- Fully configured tables.
- Configuration rationale.

- User scripts and Lotus Notes Screen Cams.

The Solution is claimed to be able to help utility organizations to understand how the R/3 software will impact the enterprise. It will also help the implementation teams to overcome the inertia present when projects get started.

In total the Andersen Consulting Utilities sector industry practice counts on more than 2,500 professional staff, who assist clients with strategy development, benchmarking and the application of best practices, reengineering and change management.

The Utilities specific areas in which Andersen Consulting claims significant expertise include; consumer services, energy delivery management, marketing and trading, power generation and production, corporate services and organizational transformation/thought leadership.

3. Cincom

Cincom markets a system call AuroraDS to the Utilities sector, which is an applications solution for automating document production by placing the full control of the production of documents into the hands of the originating departmental users.

Cincom's Document Solution Group has systems partnerships with IBM, Hewlett-Packard, Digital and Microsoft.

Additionally the Group maintains strategic relationships *inter alia* with Xerox Open Solutions and Lexmark.

4. IBM

IBM Global Services partners with Siemens to provide Internet-based trading of electric power for the Utilities sector. This service, Energy Network Exchange, is similar to other services offered by IBM to specific communities, the Insure-Commerce services to the Insurance sector and the PetroConnect service in the energy sector.

5. Intergraph

Intergraph Corporation provides a number of products and applications solutions that are targeted at the Utilities sector. These extend to consulting, systems integration and migration services.

Intergraph's electric template, for example, is an industry-specific software product based on best practices to provide a shorter design and development cycle and faster start up.

The template includes extensible capabilities including a data model and symbols library, as well as capabilities to create and maintain the database, performs analysis and modeling functions that integrate with complementary operating systems.

The template, intended to be integrated into the facility model of the total enterprise workflow, includes the following functions:

- Facility, intersection and index locates.
- Reference documents.
- Network tracing.
- Construction prints.
- Primary circuit maps.

Intergraph Corporation also offers an extensive capability in the area of AM/FM/GIS. Their complete facility asset management system enables existing data to be spatially enabled in order to integrate operational support systems (outage analysis, work management and engineering analysis).

This capability is also extended by its capability to be interfaced to SAP's R/3 system. This means that corporate departments such as finance and accounting, manufacturing, and marketing and planning can now receive spatially enabled data from a GIS which is integrated into SAP's R/3 business applications automatically.

Intergraph Corporation also markets a software development environment, FRAMME that complements its AM/FM/GIS products.

FRAMME, Facility Rulebase Applications Model Management Environment, development software supports both tabular data and graphical data within a single environment.

6. Syseca Inc.

Syseca is the software and services subsidiary of Thomson, the major French electronics group.

Syseca's overall offering to the Utilities sector is described as the 'Information Line for Energy' and is claimed to embody 25 years of energy industry experience.

The offering includes functionality for control and supervision, safety functions, specific process models, communication networks and information systems handling for geographic data, pricing and customer care.

The Syseca Information Line for Energy is based on open client-server principles in order that it can integrate all functions and provide interoperability with enterprise information systems and real-time systems such as SCADA.

7. Telco Systems

Telco Systems, headquartered in Norwood, Massachusetts, is a provider of integrated access solutions for telecommunications provision. These are of particular concern to Utilities organizations since many operate wireless communications and telemetry systems.

Telco Systems feature solutions for network access, broadband transmission to support voice, data, SCADA and protective relay communications.

Telco Systems' Utility sector customers include Brazos Electric, Kamo Power and Grand River Dam Authority and Pan Energy.

8. Trajecta, Inc.

Trajecta, Inc., based in Austin, Texas, is a vendor that offers data mining software products.

Trajecta's data mining applications cover, cross selling, market basket analysis, fraud detection, pricing, prospecting, resource allocation and customer retention.

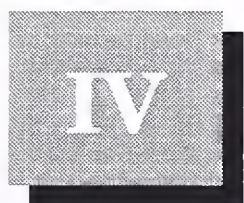
Trajecta, which utilizes the byline, Intelligent Intuition, focuses on all industries that make particular use of data mining. In addition to the Utilities sector, it also addresses the Automotive, Financial Services, Pharmaceuticals, Insurance, Retail and Telecommunications sectors.

Trajecta has an alliance with Source Informatics and a VAR agreement with Acxiom.

9. Xerox.

Xerox Engineering Systems targets the Utilities sector with a number of document management products and services.

For example, the Xerox Virtual Printroom (XVP) is a document distribution system that can create automated, enterprise, wide access to technical documents.



Utilities Sector IT Market

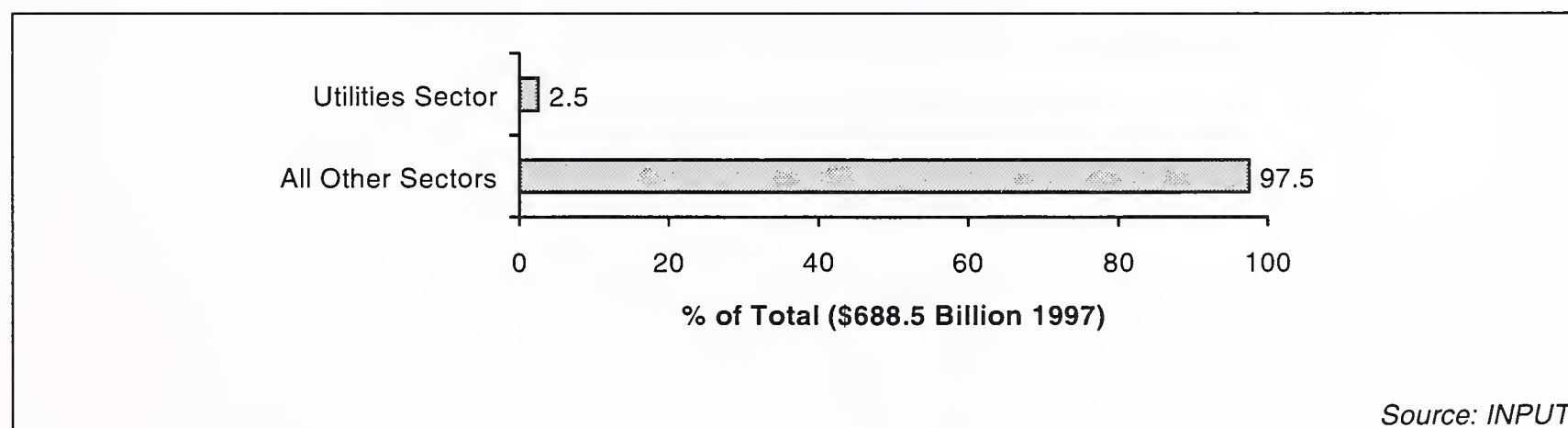
A

Total IT Budget for the Utilities Sector

The Utilities sector accounts for 2.5% of all IT related expenditure in the U.S. market. Exhibit IV-1 shows the proportion of Utilities sector expenditure as a proportion of the total amount spent by U.S. organizations on IT related items.

Exhibit IV-1

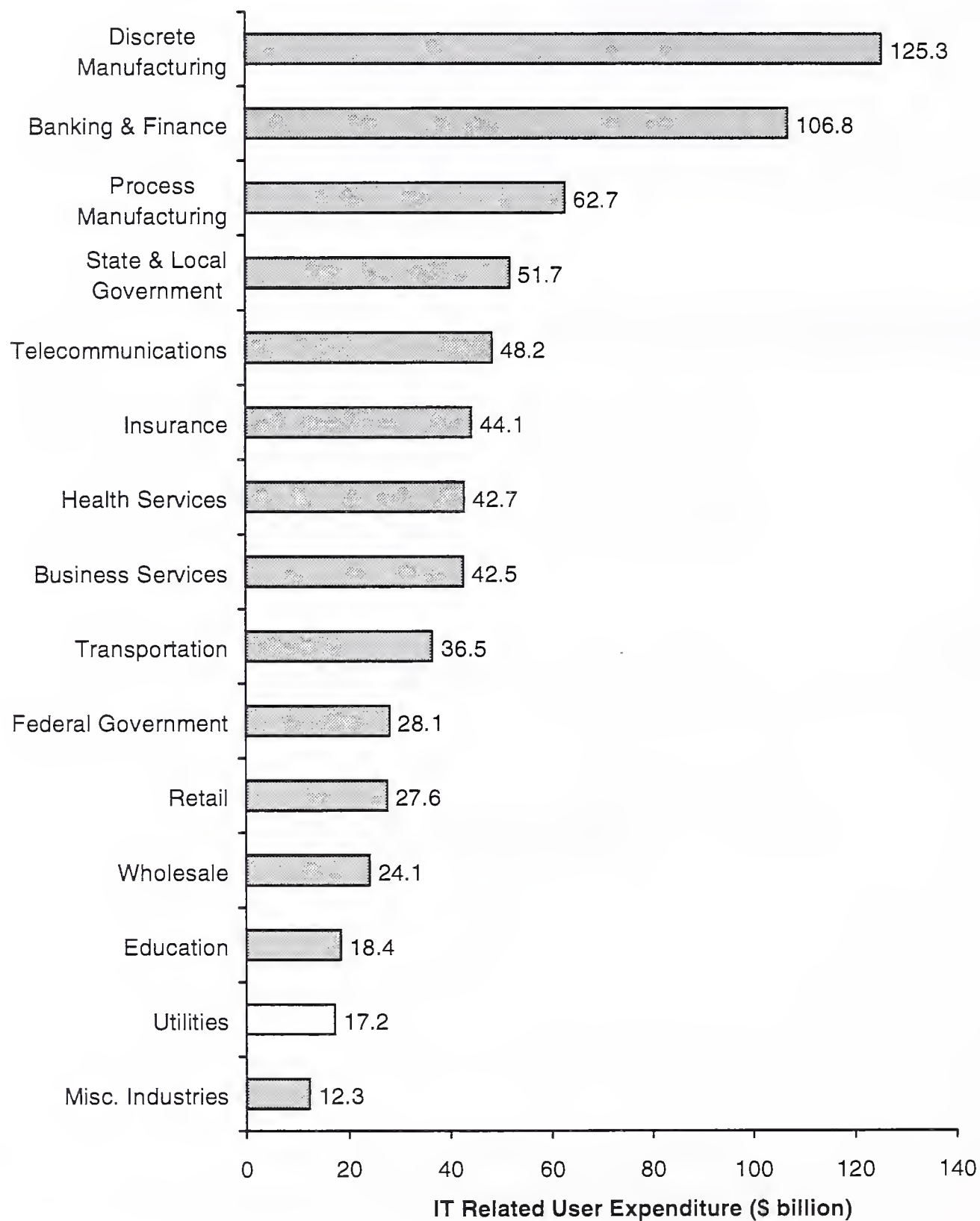
Utilities Sector IT Related Expenditure - U.S.



In comparison with other industry sectors the Utilities sector ranks only as the second smallest individual industry sector overall as is shown in Exhibit IV-2.

A fuller comparison of the Utilities sector with other industry sectors is provided in Section C of this Chapter below.

Exhibit IV-2

Industry Sector Comparison – U.S.

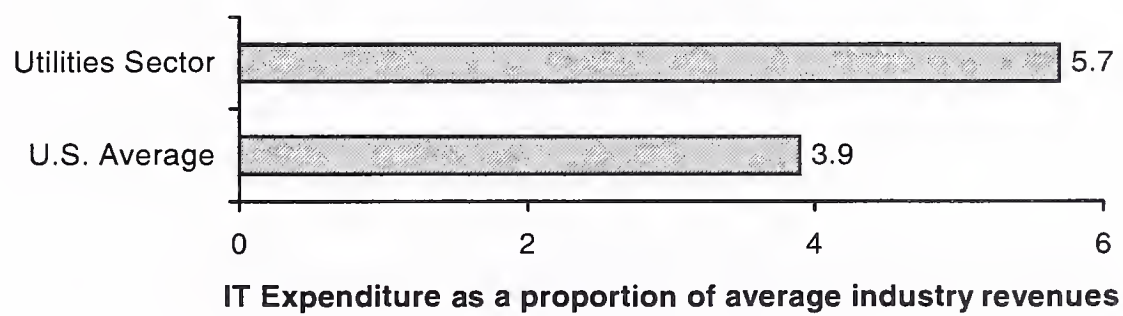
Source: INPUT

As a proportion of total industry output (the average for the individual organizations in the sector) the Utilities sector spent 5.7% on IT in 1997.

Exhibit IV-3 shows the comparison of the Utilities sector with the average for all U.S. organizations and Exhibit IV-4 in comparison with other major industry sectors.

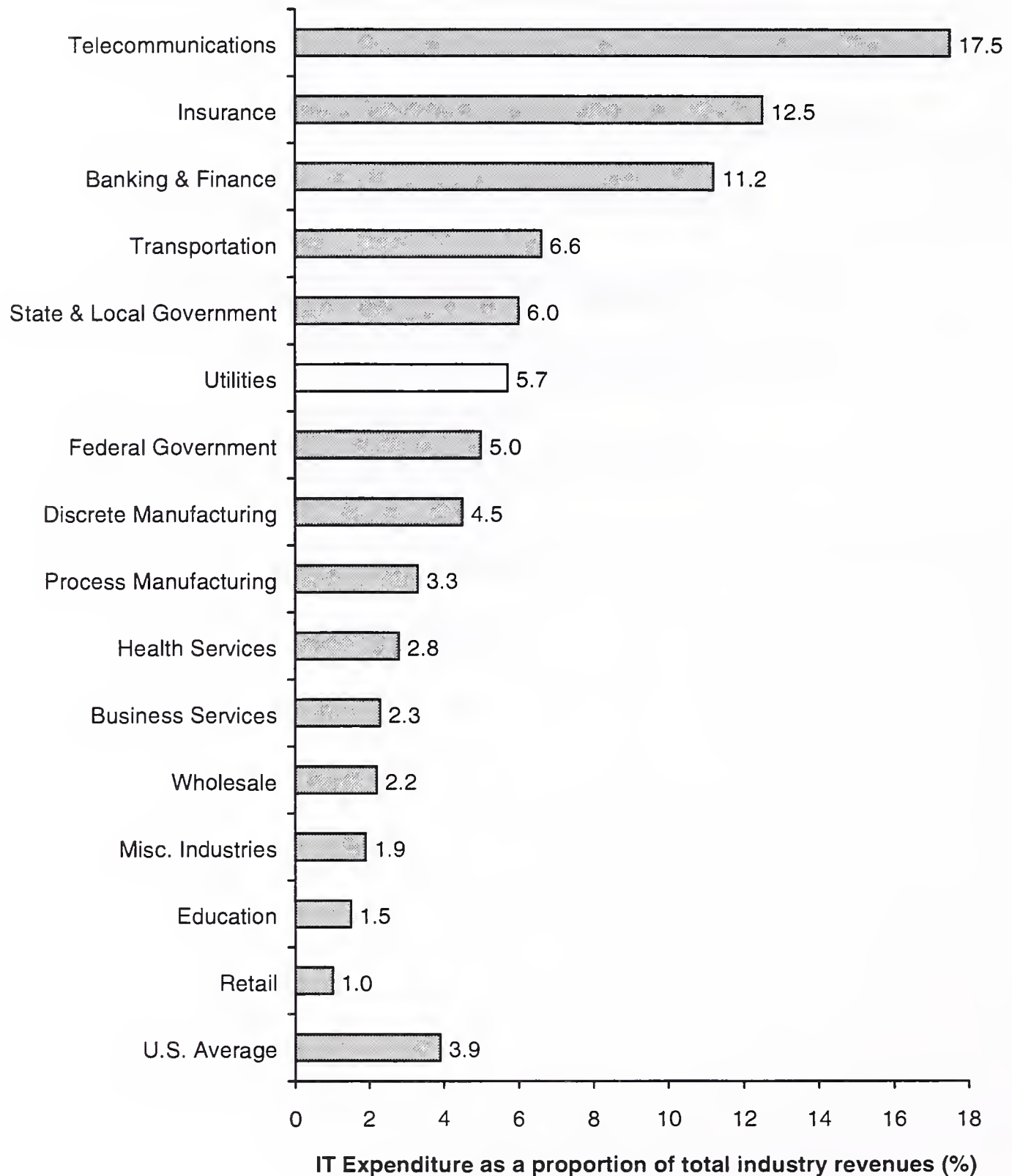
Exhibit IV-3

Utilities Sector IT Expenditure Comparison



Source: INPUT

Exhibit IV-4

Industry Sector Comparison – IT Expenditure U.S.

Source: INPUT

INPUT analyzes total IT related expenditure into six principal categories. Exhibit IV-5 shows the analysis of total IT expenditure for the Utilities sector in U.S..

These six categories are:

- Equipment sales — expenditure on computer and data communications hardware products.
- Personnel — expenditure on permanent in-house staff excluding all externally provided people and contractors.
- Software products — all expenditure on systems software products and applications software product licenses including support services where these are included within the basic license fee.
- IT services — all expenditure on professional services, systems integration, outsourcing, processing services, network services, turnkey systems and systems software product support services and applications software product support services but excluding the provision of any products whether hardware or software. (NB. This is a narrower definition of services than used by INPUT for its full assessment of IT Software & Services markets as provided in Section B of this Chapter below.)
- Communications — all expenditure on IT-related data communications services.
- Facilities — IT budget expenditure on overheads such as space, heating, lighting, furniture, vehicles etc.

Exhibit IV-5

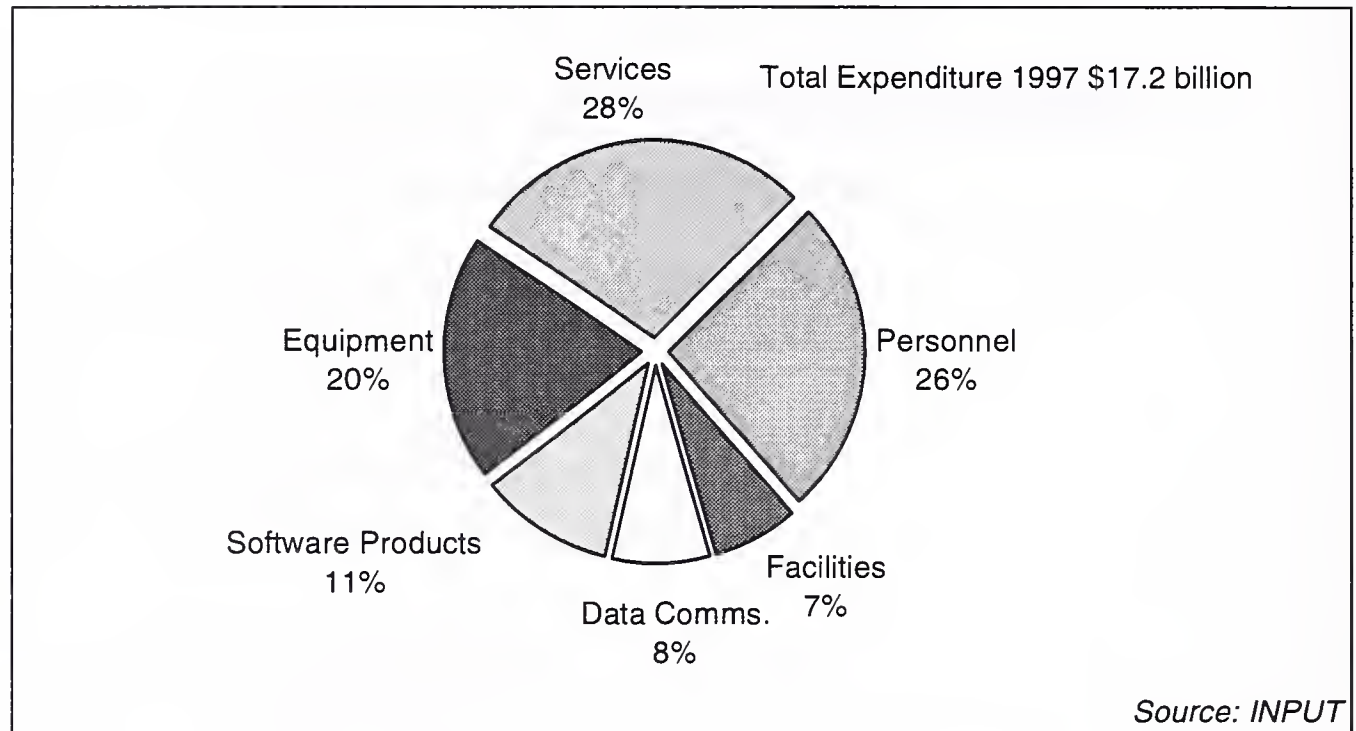
Utilities Sector – IT Budget Analysis - 1997

Exhibit IV-6 shows the same analysis (as in Exhibit IV-5) but for the whole U.S. market.

Exhibit IV-6

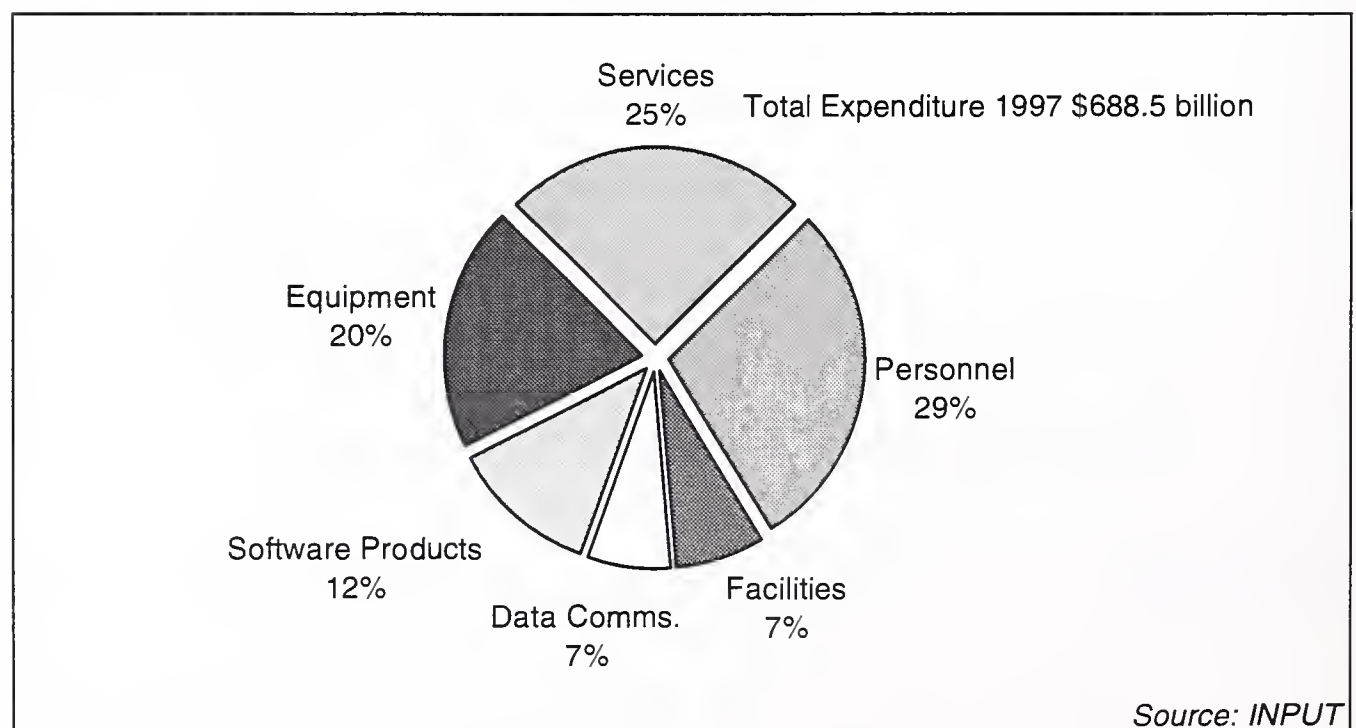
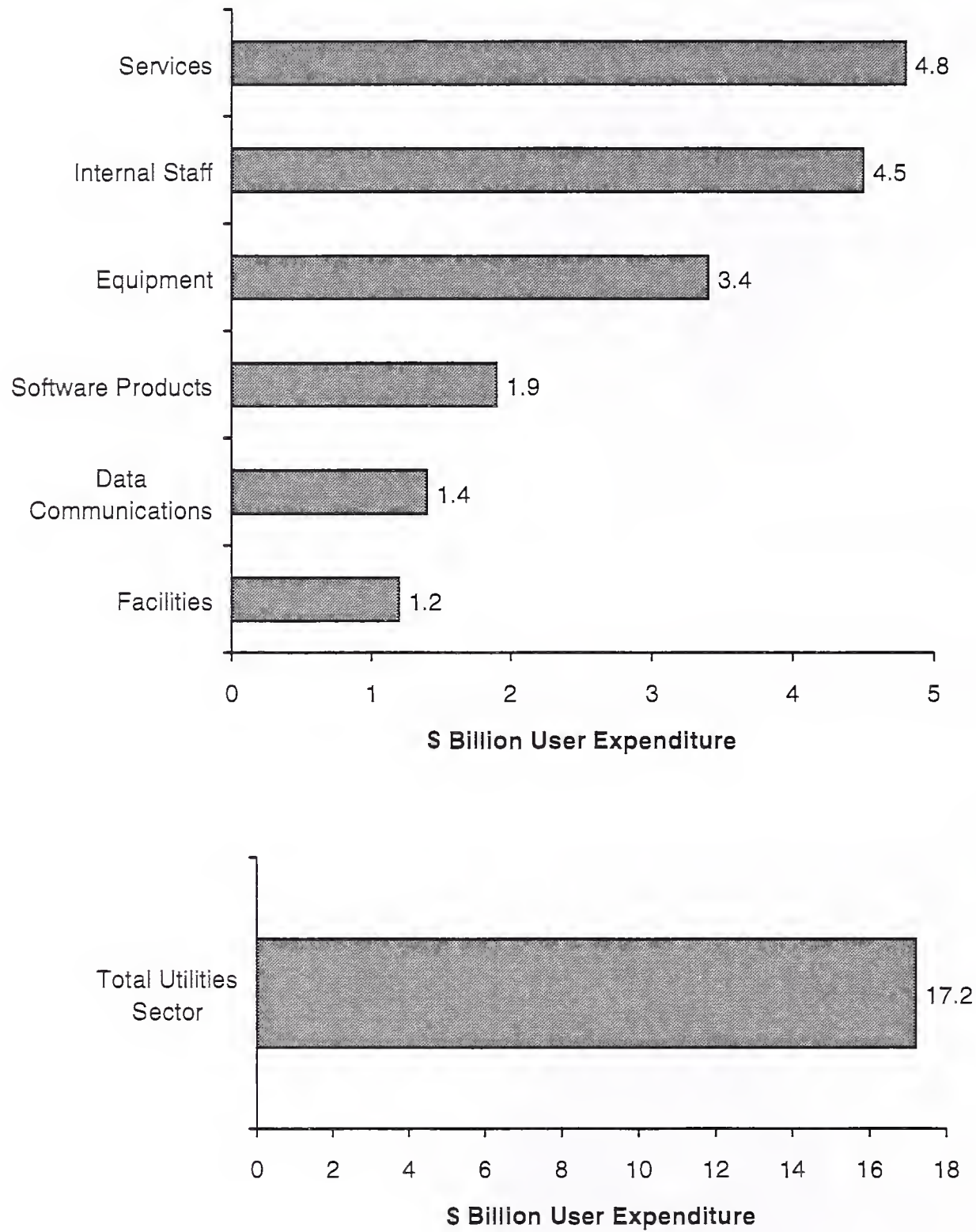
U.S. – IT Budget Analysis - 1997

Exhibit IV-7 shows the relative size of each of the six principal segments of IT related expenditure for the Utilities sector.

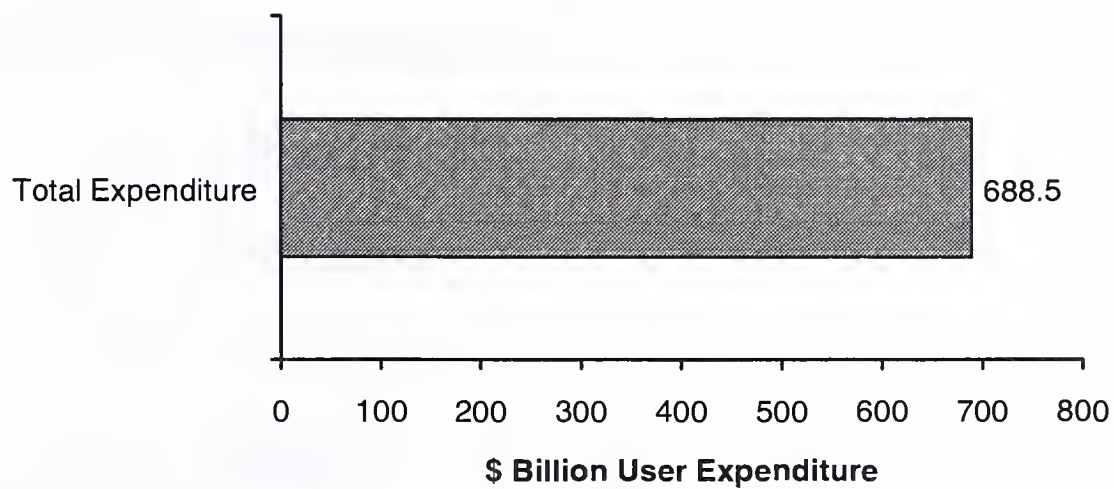
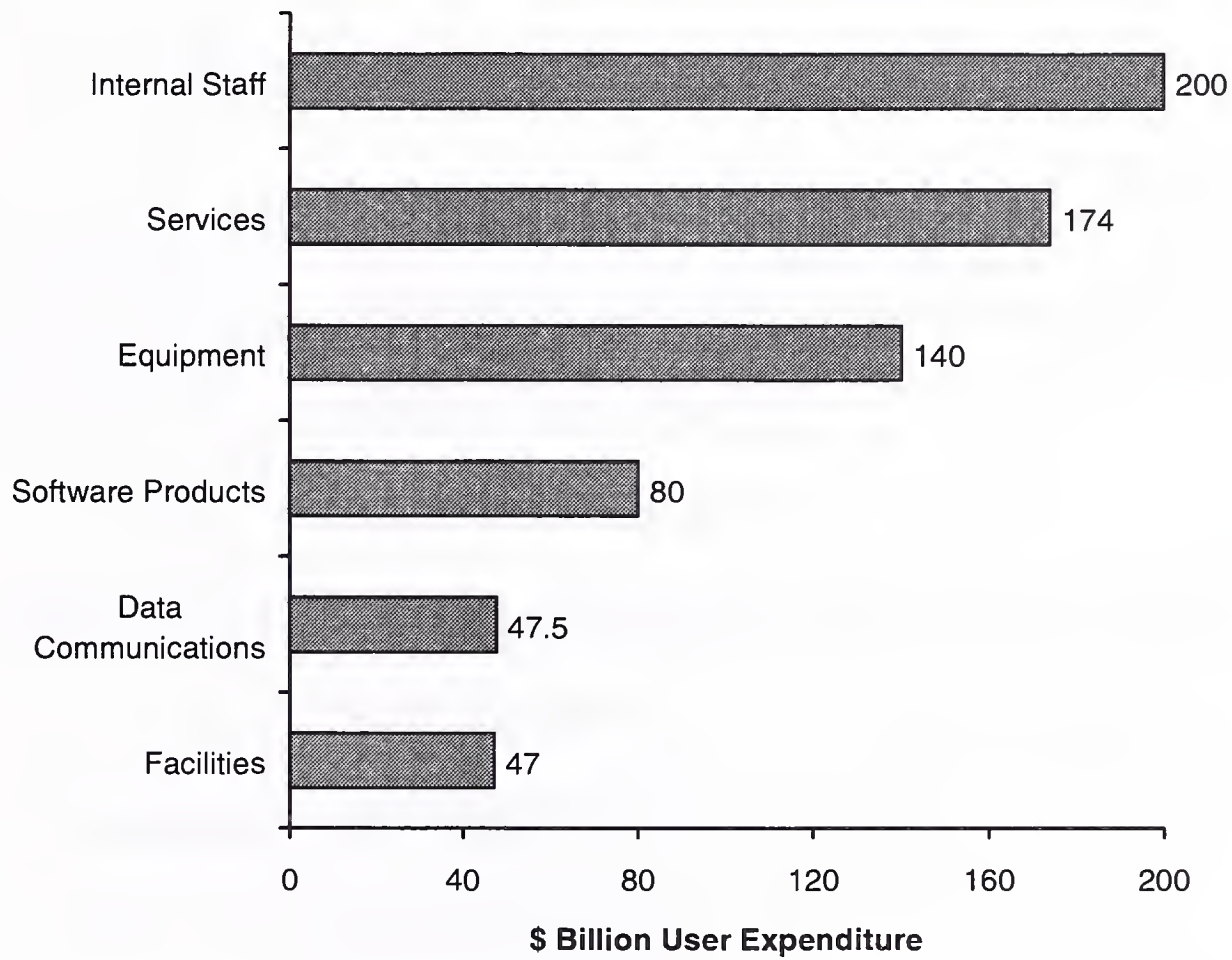
Exhibit IV-8 shows the comparative table for the whole of the U.S. market.

Exhibit IV-7

IT Related User Expenditures – U.S. Utilities Sector, 1997

Source: INPUT

Exhibit IV-8

IT Related User Expenditures—U.S., 1997

Source: INPUT

B

IT Software & Services Market

1. Total IT Software & Services Expenditure

a. Utilities Sector IT Software & Services Expenditure

Exhibit IV-9 shows the proportion of IT Software & Services expenditure within the Utilities sector in comparison to the total U.S. market.

Exhibit IV-9

Utilities Sector IT Software & Services Expenditure – U.S., 1997

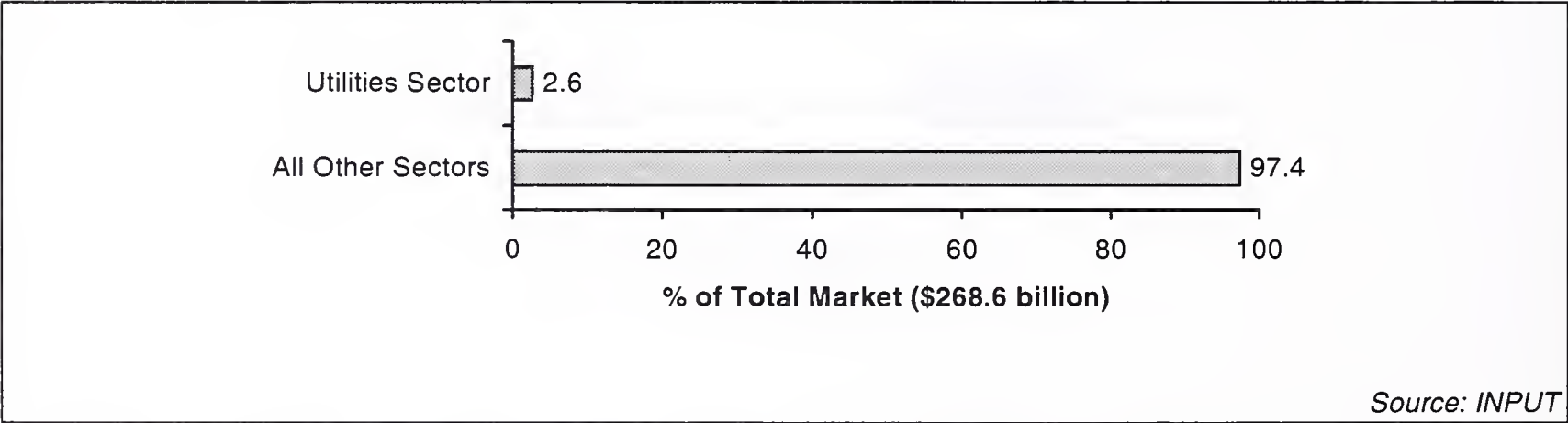
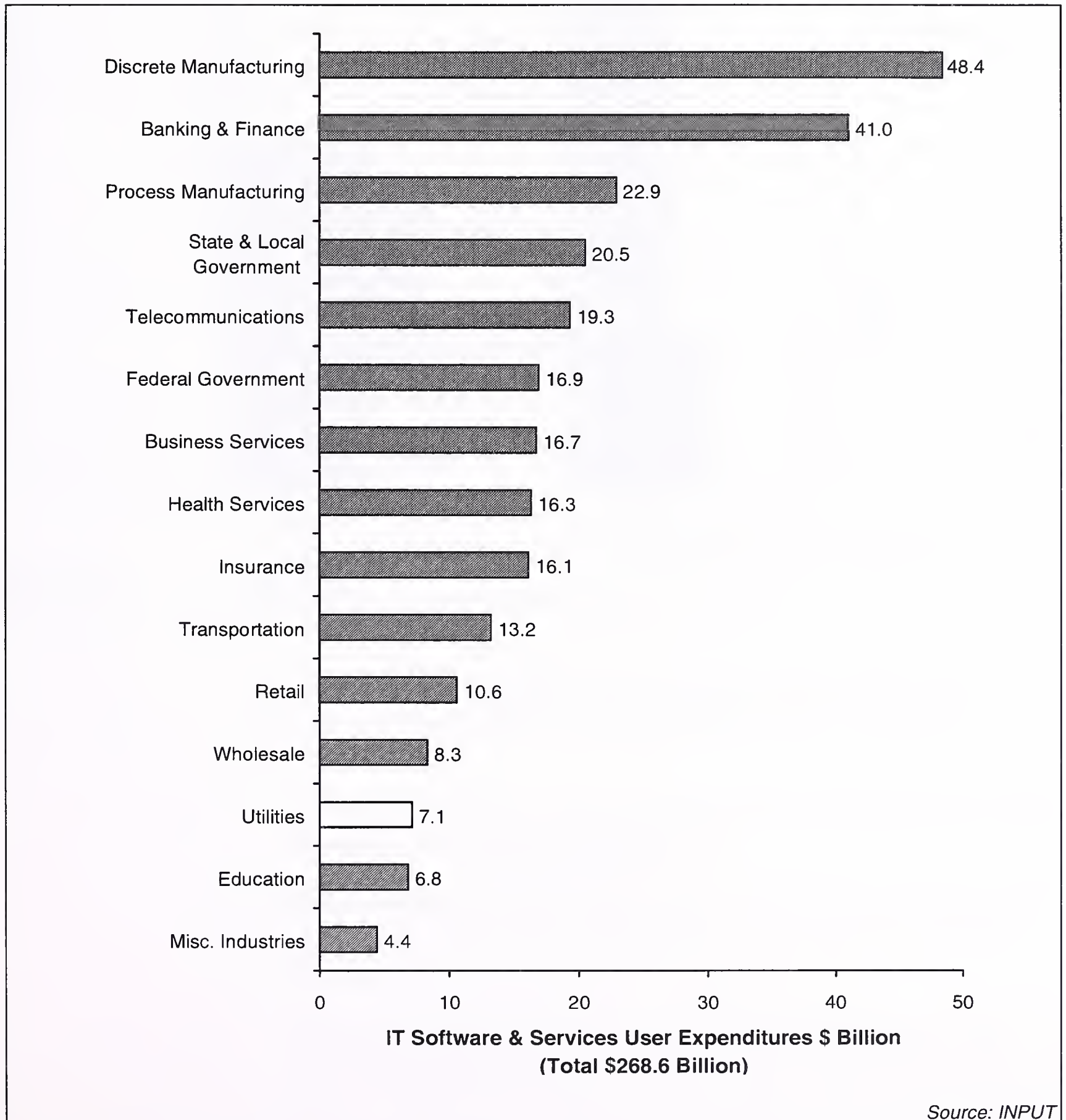


Exhibit IV-10 shows a comparison between the Utilities sector IT Software & Services market and other U.S. industry sectors.

Exhibit IV-10

Industry Sector Comparison – IT Software & Services – U.S., 1997



Growth expectations for the Utilities sector IT Software & Services market are shown in Exhibit IV-11 and in comparison with the total U.S. market for IT Software & Services in Exhibit IV-12.

Exhibit IV-11

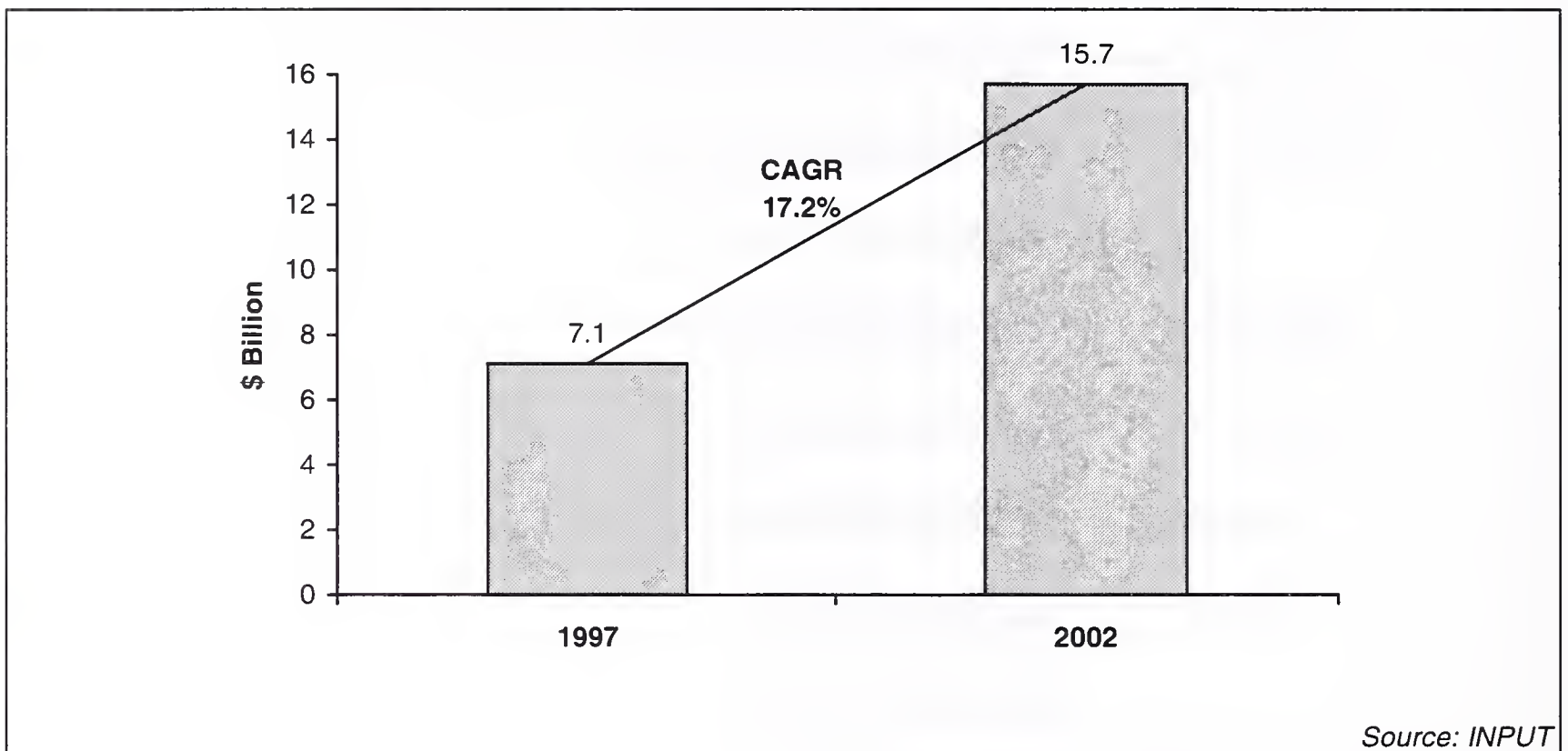
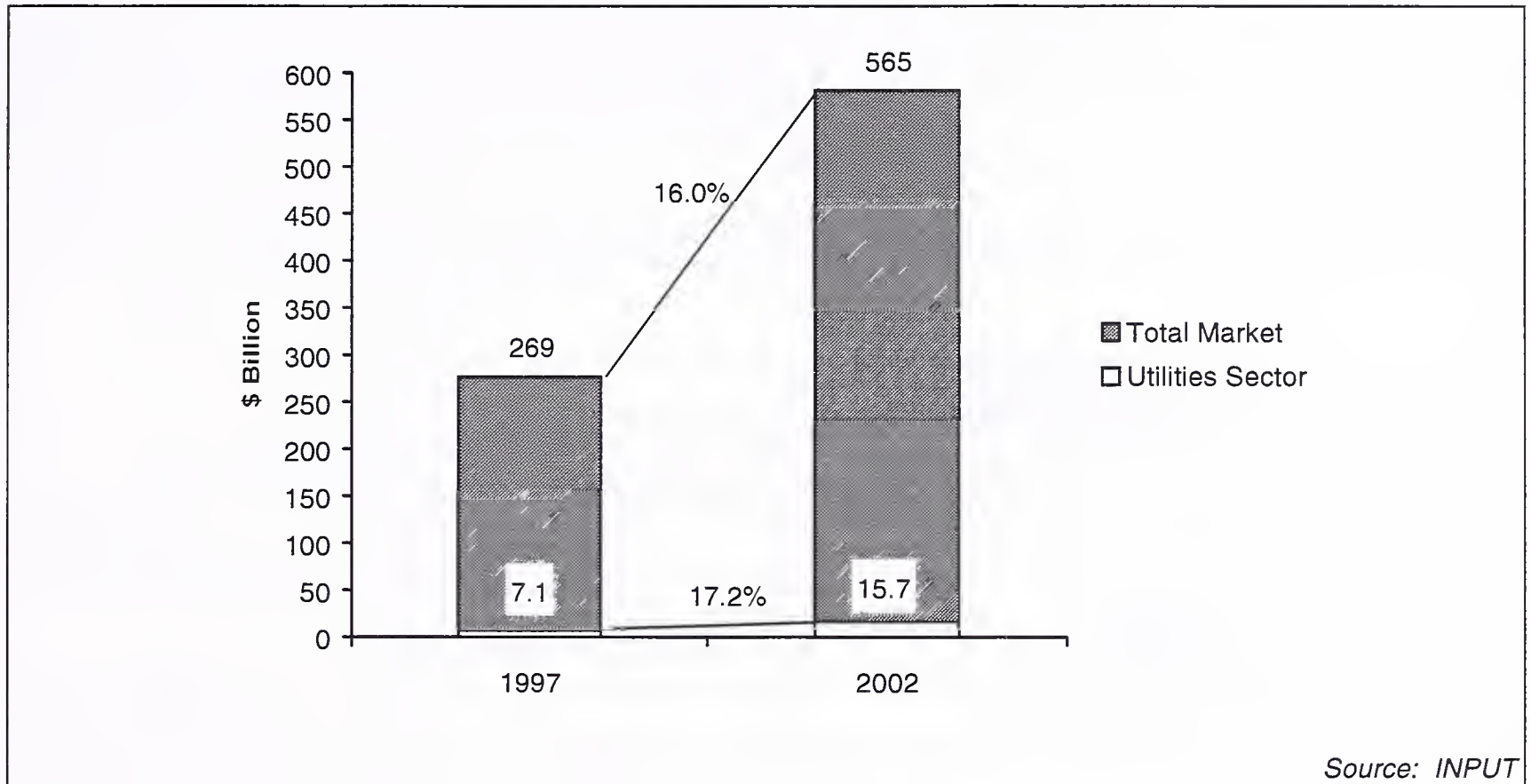
Utilities Sector IT Software & Services Market – U.S.

Exhibit IV-12

IT Software & Services Forecast - U.S.**b. Industry Sector Composition of IT Software & Services Markets**

The total volume of expenditure for IT Software & Services in the Utilities sector, described above, is analyzed by INPUT into three separate categories:

- Industry Specific expenditures – these are for services that are related specifically to the Utilities industry.
- Process or Cross-industry expenditures – these are for multi-industry applications such as human resource systems, accounting systems, etc.
- Other services expenditures – these are for general services that do not fall into the two categories described above. The two principal sectors classified in this 'other services' category are Systems Software Products and Equipment Services. The category also includes some types of expenditure in Processing services and Network Services.

The analysis of IT Software & Services expenditure within the Utilities sector according to this breakdown is shown in Exhibit IV-13.

Exhibit IV-14 provides a more detailed numerical tabulation of this analysis.

Exhibit IV-13

Total IT-Related User Expenditures Utilities Sector – U.S.

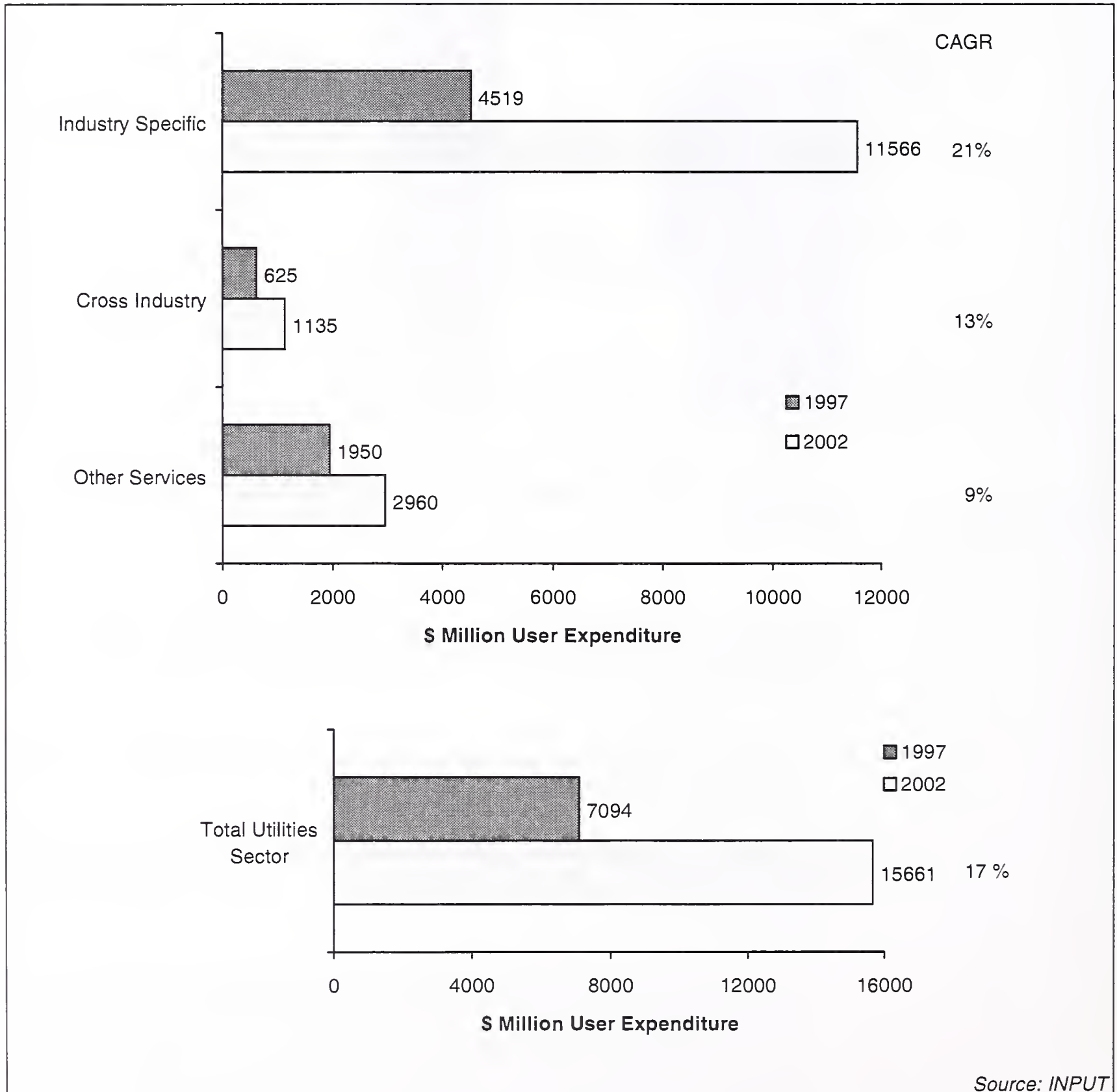


Exhibit IV-14

Analysis of IT Software & Services Expenditure – Utilities Sector U.S., 1997

| Segment | | User Expenditures \$ Billion | | |
|---------------------------------------|-------------------|------------------------------|----------------|----------------|
| | | Industry Specific | Cross Industry | Other Services |
| Professional Services | Total | 1,475 | | |
| Systems Integration | Total | 1,200 | | |
| | Software Products | 142 | | |
| | Equipment | 344 | | |
| | Other | 714 | | |
| Outsourcing | Total | 463 | | |
| Processing Services | Transactions | 500 | 200 | |
| | Other services | | | 260 |
| Network Services | Total | 200 | | 220 |
| Applications Software Products | Total | 501 | 375 | |
| Turnkey Systems | Total | 180 | 50 | |
| | Software Products | 75 | 20 | |
| | Equipment | 65 | 20 | |
| | Other | 40 | 10 | |
| Systems Software Products | Total | | | 750 |
| Equipment Services | Total | | | 720 |
| Total | | 4,519 | 625 | 1,950 |

Source: INPUT

The relationship between the different classifications of expenditure can be readily seen from the two previous Exhibits (IV-13 and 14).

Exhibits IV-15 shows the breakdown of the total amount of equipment included within INPUT's IT Software & Services categories.

Exhibit IV-15

Equipment Expenditure – Utilities Sector

| Sector | 1997 Expenditure (\$ million) |
|-------------------------------------|-------------------------------|
| Systems Integration | 344 |
| Turnkey Systems – Industry Specific | 65 |
| Turnkey Systems – Cross Industry | 20 |
| Utilities Sector TOTAL | 429 |

Source: INPUT

Exhibit IV-16 shows the calculation of the total amount of Software Products that are included within INPUT's IT Software & Services categories.

Exhibit IV-16

Software Products Expenditure – Utilities Sector

| Sector | 1997 Expenditure (\$ million) |
|-------------------------------------|-------------------------------|
| Systems Integration | 142 |
| Applications Software Products | 876 |
| Turnkey Systems – Industry Specific | 75 |
| Turnkey Systems – Cross Industry | 20 |
| Systems Software Products | 750 |
| Utilities Sector TOTAL | 1,863 |

Source: INPUT

Exhibit IV-17 shows the summation of the three different components that combine to form INPUT's definition of the IT Software & Services market.

Exhibit IV-17

IT Software & Services Components – Utilities Sector

| Sector | 1997 Expenditure (\$ million) |
|------------------------|-------------------------------|
| Equipment | 429 |
| Software Products | 1,863 |
| Services | 4,802 |
| Utilities Sector TOTAL | 7,094 |

Source: INPUT

Exhibit IV-18 shows the summation of the three different categories of services that comprise the total amount of expenditure on IT Software & Services within the Utilities sector in the U.S..

Exhibit IV-18

Total IT Software & Services – Utilities Sector

| Sector | 1997 Expenditure (\$ million) |
|------------------------|-------------------------------|
| Industry Specific | 4,519 |
| Cross Industry | 625 |
| Other Services | 1,950 |
| Utilities Sector TOTAL | 7,094 |

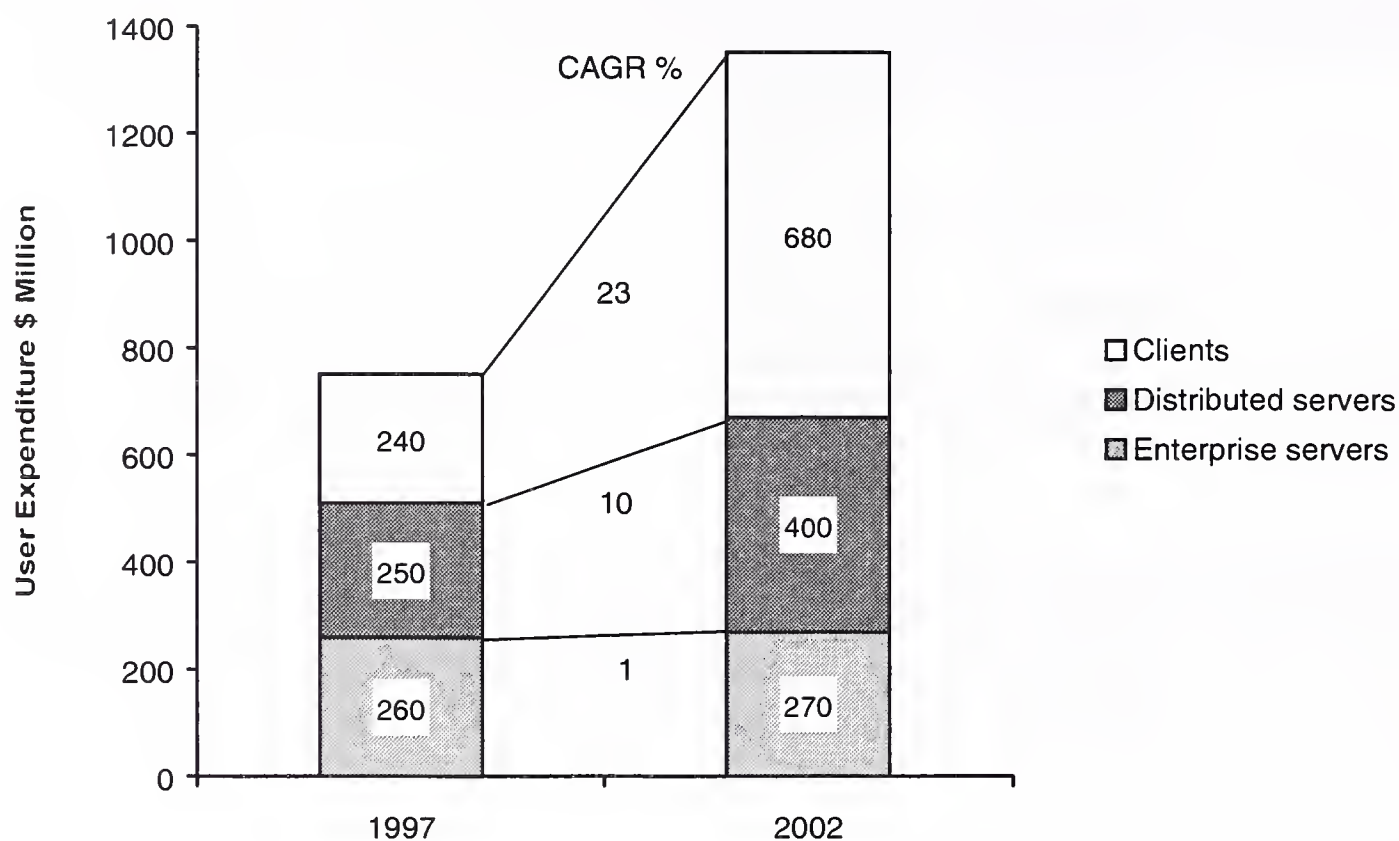
Source: INPUT

The two principal IT Software & Services categories that fall outside the Industry Specific classification are Systems Software Products and Equipment Services, they are briefly discussed below.

Exhibit IV-19 shows the forecast growth for Systems Software Products within the Utilities sector.

Exhibit IV-19

Utilities Sector - System Software Products Expenditure, U.S.



Source: INPUT

System Software Products enable the computer/communications system to perform basic machine-oriented or user interface functions.

INPUT defines the System Software Products sector as comprising four submodes:

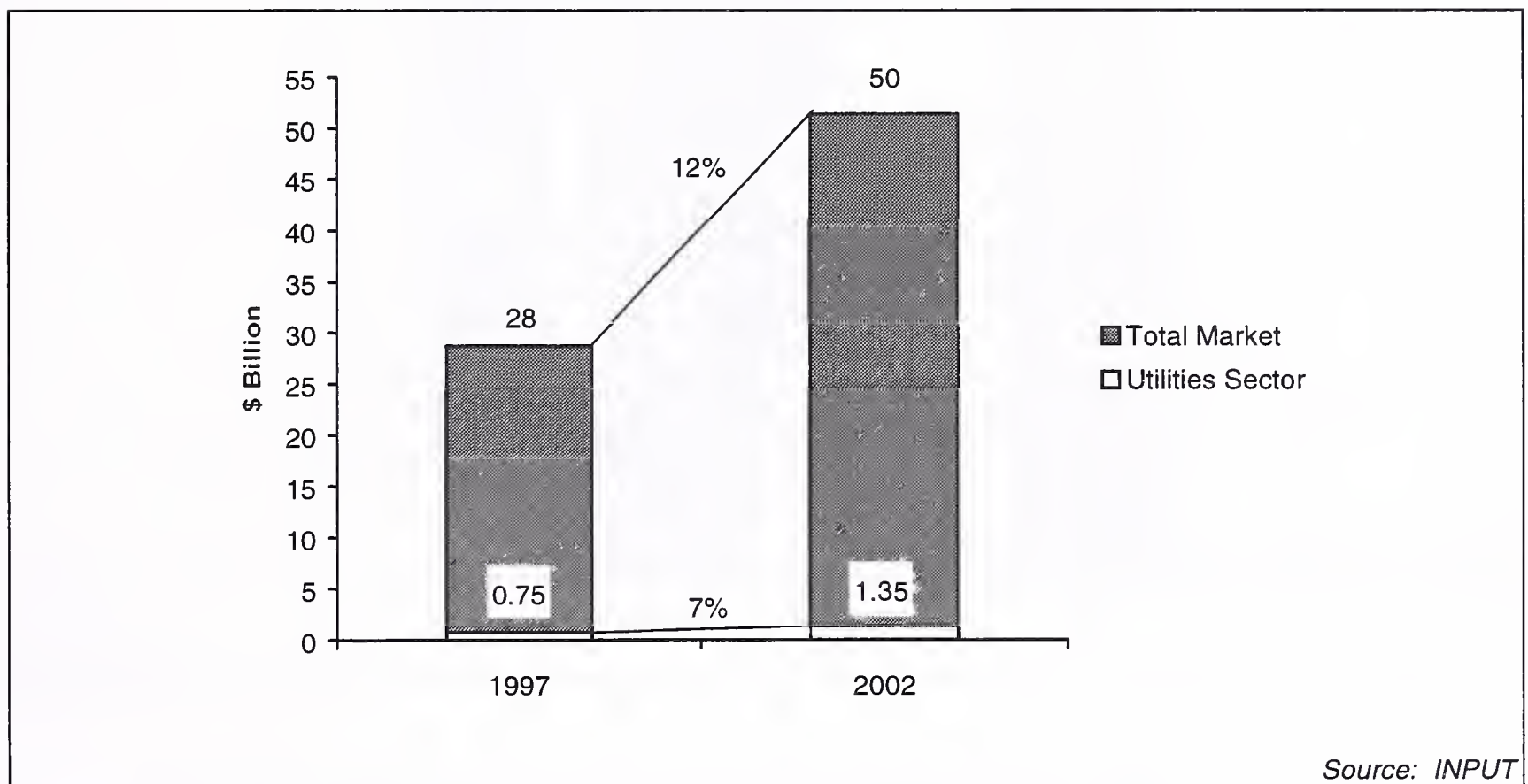
- Systems Control Products – the operating system, network control software etc.
- Operations management Tools – programs used by operational management, for example performance measurement and scheduling tools.

- Applications Development Tools – programming languages, database management systems and other development and productivity tools.
- Database Management Systems.

Exhibit IV-20 shows the comparison of the Utilities sector growth with that for the whole market in the U.S. .

Exhibit IV-20

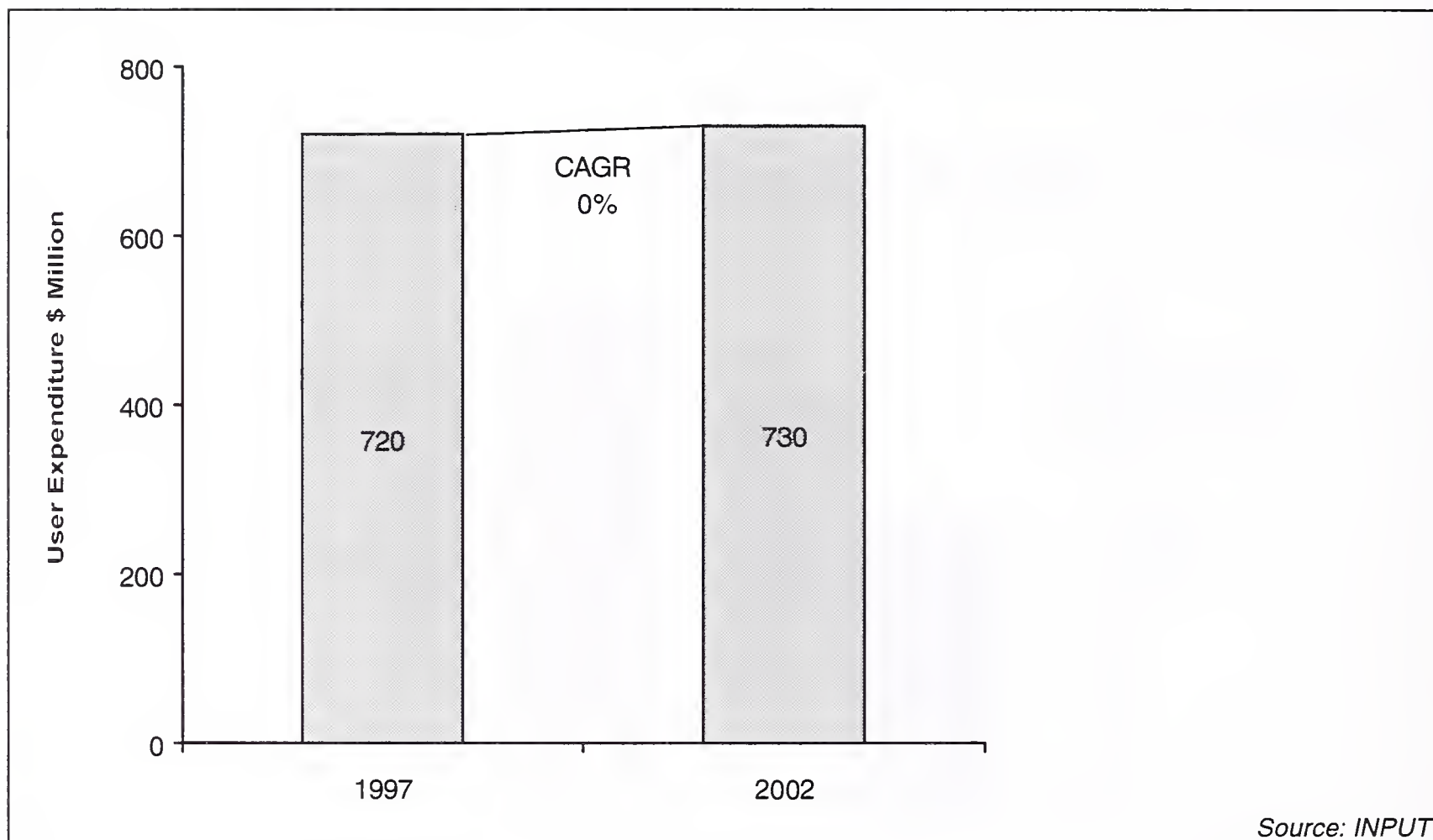
Systems Software Products Market Growth - U.S.



The Equipment Services expenditure that is generated within the Utilities Sector is analyzed in Exhibit IV-21 below.

Exhibit IV-21

Utilities Sector - Equipment Services Expenditure, U.S.



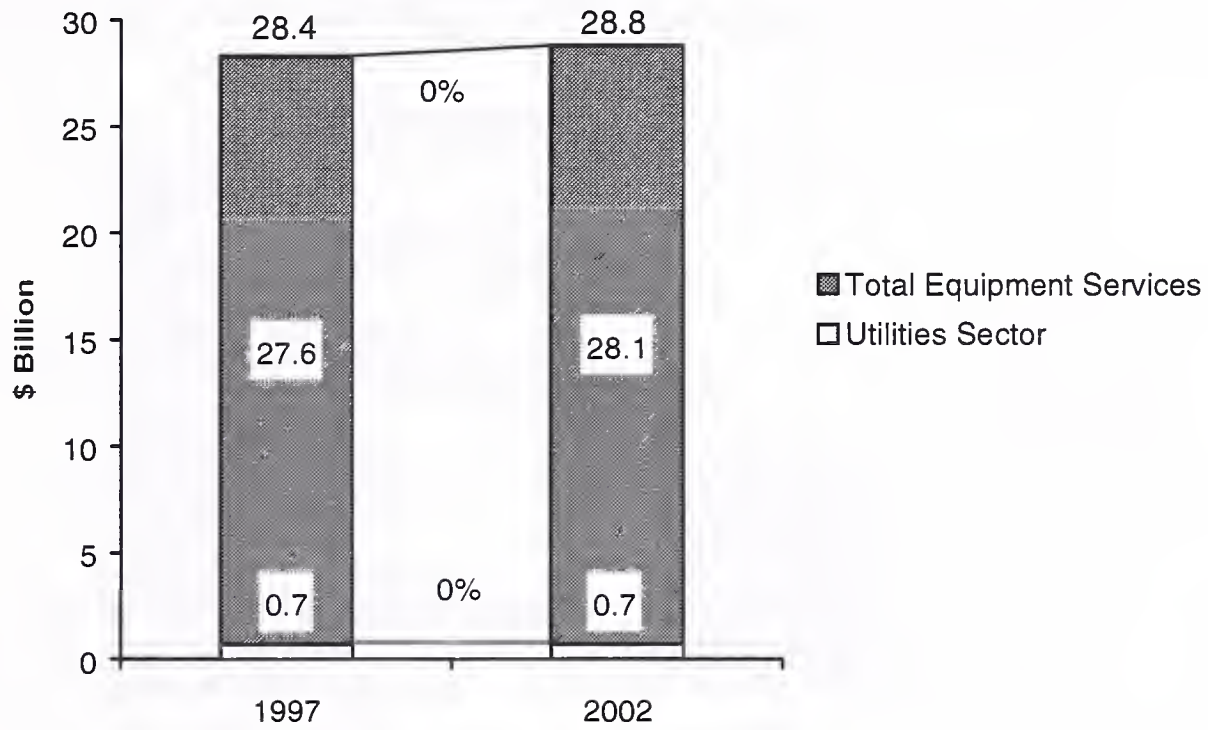
The Equipment Services category is comprised of two principal elements:

- **Product Maintenance-** services need to repair, diagnose and provide preventive maintenance both onsite and offsite for computer/communications systems including systems software products where these expenditures are not included within System Software Product License agreements.
- **Environmental Services** – planning and implementation services which affect the environments in which computer systems are operated. This category therefore covers; computer rooms, electrical power and HVAC systems, network attachments and associated building services.

Exhibit IV-22 shows the comparison of the Utilities sector growth with that for the whole market in the U.S..

Exhibit IV-22

Equipment Services Growth - U.S.



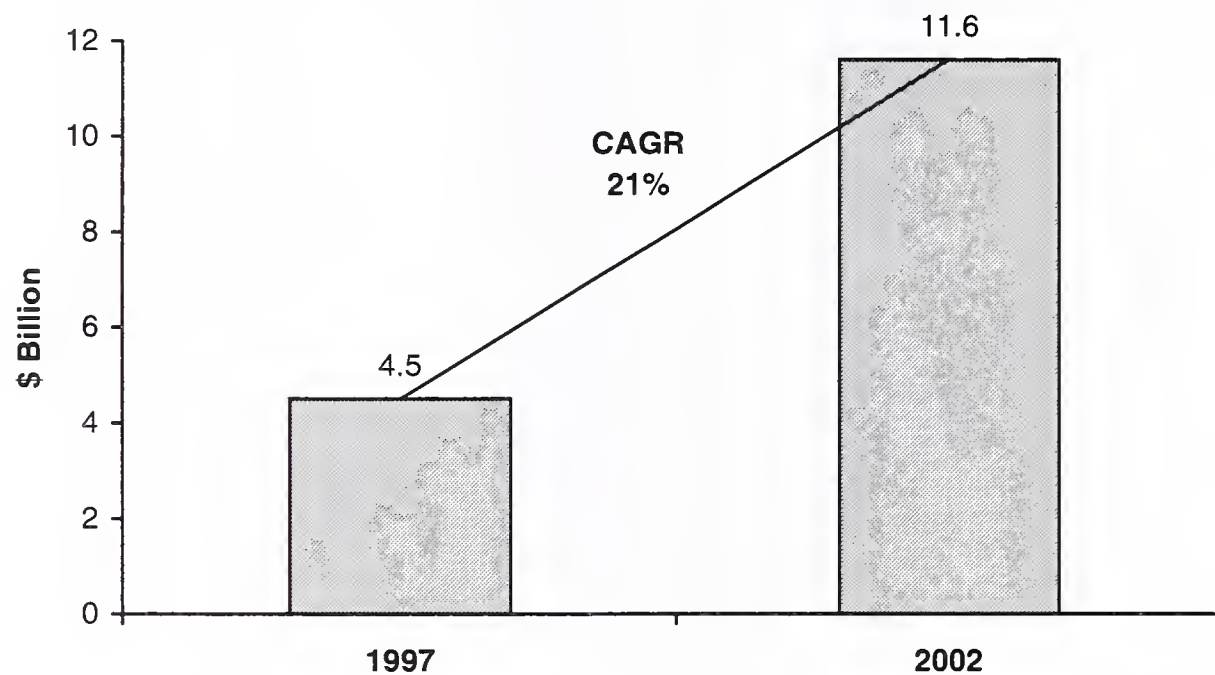
Source: INPUT

2. Industry Specific IT Software & Services Expenditure

This subsection focuses on the *Industry Specific* IT Software & Services market. Exhibit IV-23 shows the expected growth for all expenditure in this category for the Utilities sector in the U.S..

Exhibit IV-23

Utilities Sector Industry Specific IT Software & Services Market



Source: INPUT

Exhibit IV-24 provides analysis of this sector by the principal forms of service delivery.

Exhibit IV-24

Analysis by Service Category – Utilities Industry Specific Market, U.S.

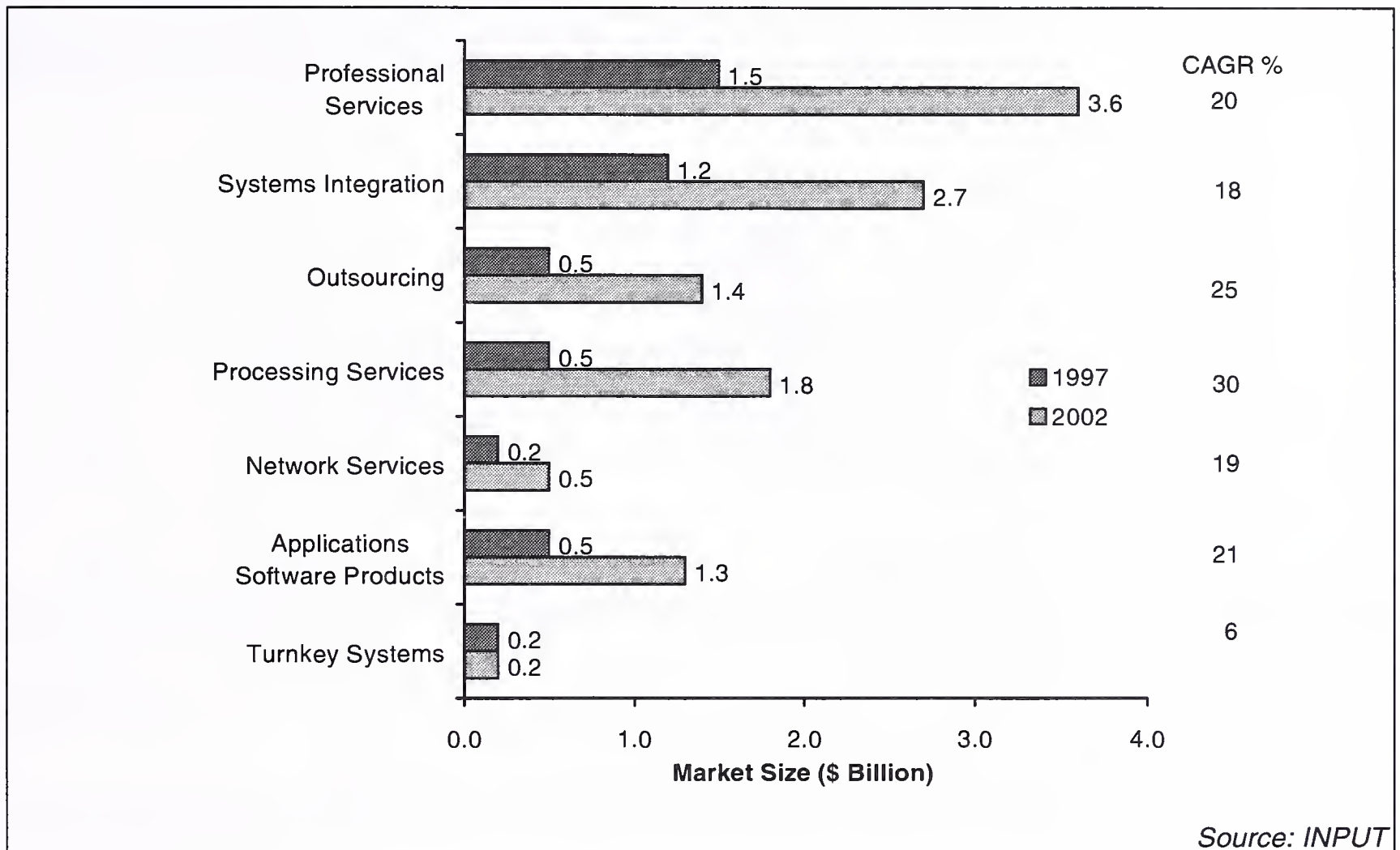


Exhibit IV-25 provides a tabular analysis showing the detailed data.

Exhibit IV-25

**Utilities Industry Specific IT Software & Services Market, U.S.
(\$ Million)**

| Sector | 1997 | CAGR | 2002 |
|-----------------------------------|-------|-------|--------|
| Professional Services | 1,475 | 19.8% | 3,635 |
| Systems Integration | 1,200 | 17.6% | 2,700 |
| Outsourcing | 463 | 24.6% | 1,390 |
| Processing Services | 500 | 29.5% | 1,820 |
| Network Services | 200 | 19.4% | 485 |
| Applications software Products | 501 | 21.0% | 1,300 |
| Turnkey systems | 180 | 5.6% | 236 |
| Sector TOTAL | 4,519 | 20.7% | 11,566 |

Source: INPUT

Each of these principal service modes is described in more detail below.

a. Professional Services

Exhibit II-26 shows the forecast for the Utilities sector Professional Services segment, the second largest individual services delivery mode in the sector.

The professional service category comprises three subcategories: consulting, education and training, and software development.

Software development is by far the dominant sector and will remain so over the forecast period even though it is predicted to grow more slowly than the other two subcategories.

Exhibit IV-26

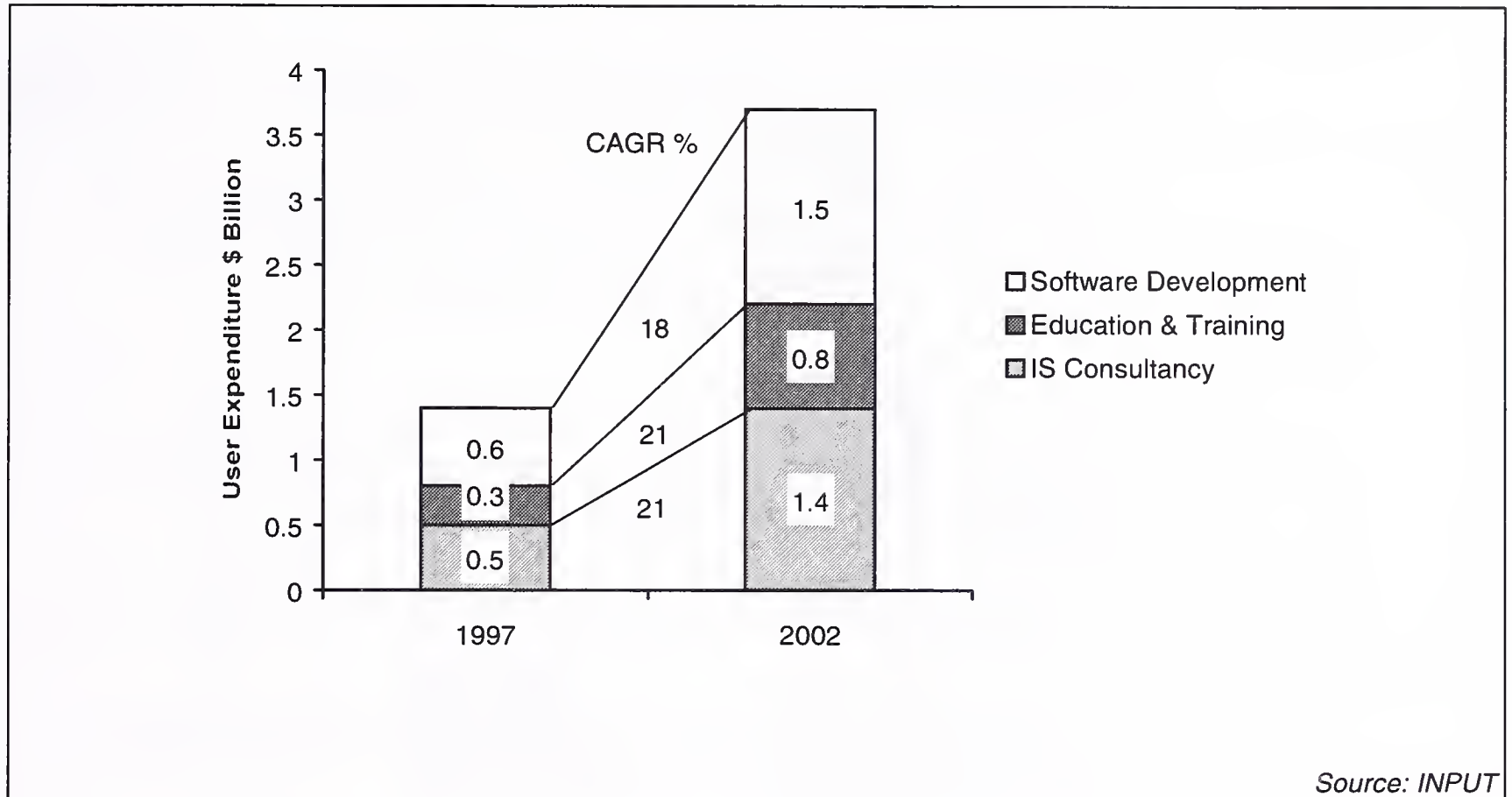
Utilities Sector Professional Services Market - U.S.

Exhibit IV-27 provides the detailed forecast data in tabular form.

Exhibit IV-27

Professional Services – Utilities Sector, U.S.

| Subsector | 1997 Expenditure | CAGR | 2002 Expenditure |
|----------------------|------------------|--------------|------------------|
| IS Consulting | 522 | 21.3% | 1,370 |
| Education & Training | 311 | 20.6% | 795 |
| Software Development | 642 | 18.0% | 1,470 |
| TOTAL | 1,475 | 19.8% | 3,635 |

Source: INPUT

b. Systems Integration

Systems Integration is a vendor delivered service that provides a complete solution to an information systems requirement.

The vendor meets the client's needs through the custom selection and implementation of a variety of information systems products and services.

A Systems Integrator is responsible for the overall management of a systems integration contract and is the single point of contact and responsibility to the buyer for the delivery of the specified system function, on schedule and at the contracted price.

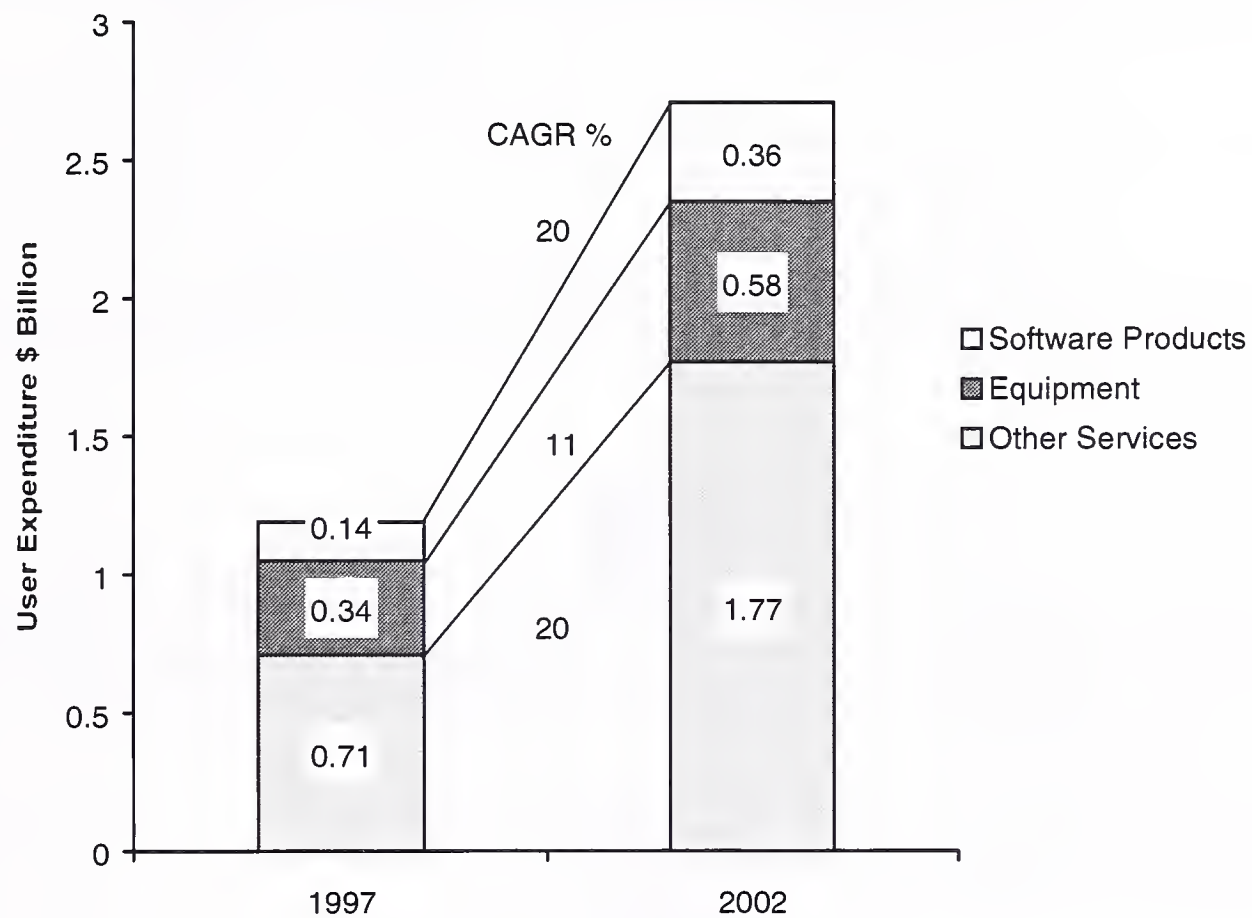
The principal components of a systems integration contract are:

- Equipment – the information processing and communications equipment required to build the systems solution.
- Software products – prepackaged applications and systems software products.
- IT-related professional services - the value added element that develops and implements the client solution.
- Other products and services – miscellaneous items such as engineering services, computer supplies and business support services.

Exhibit IV-28 shows the anticipated development of the Systems Integration market in the U.S. .

Exhibit IV-28

Utilities Sector Systems Integration Market - U.S.



Source: INPUT

Exhibit IV-29 shows the detailed forecast data in tabular form.

Exhibit IV-29

Systems Integration – Utilities Sector, U.S. (\$ Million)

| Subsector | 1997 Expenditure | CAGR | 2002 Expenditure |
|------------------------|------------------|-------|------------------|
| Software Products | 142 | 20.1% | 355 |
| Equipment | 344 | 10.8% | 575 |
| Other Services | 714 | 19.9% | 1,770 |
| Utilities Sector TOTAL | 1,200 | 17.6% | 2,700 |

Source: INPUT

c. Operational Services

INPUT has in the course of 1997 introduced the term *Operational Services* to distinguish and group together those services that provide continuous computer/network operations and/or support.

The Operational Services sector comprises:

- Outsourcing services.
- Processing services.
- Network services including Internet services.

Each of these subsectors is described below.

i. Outsourcing

Outsourcing is a long-term (greater than one year) relationship between a client and a vendor in which the client delegates all, or a major portion, of an operation or function to the vendor.

The operation or function may either be solely information systems outsourcing based, or include information systems outsourcing as a major component (at least 30%) of the operation.

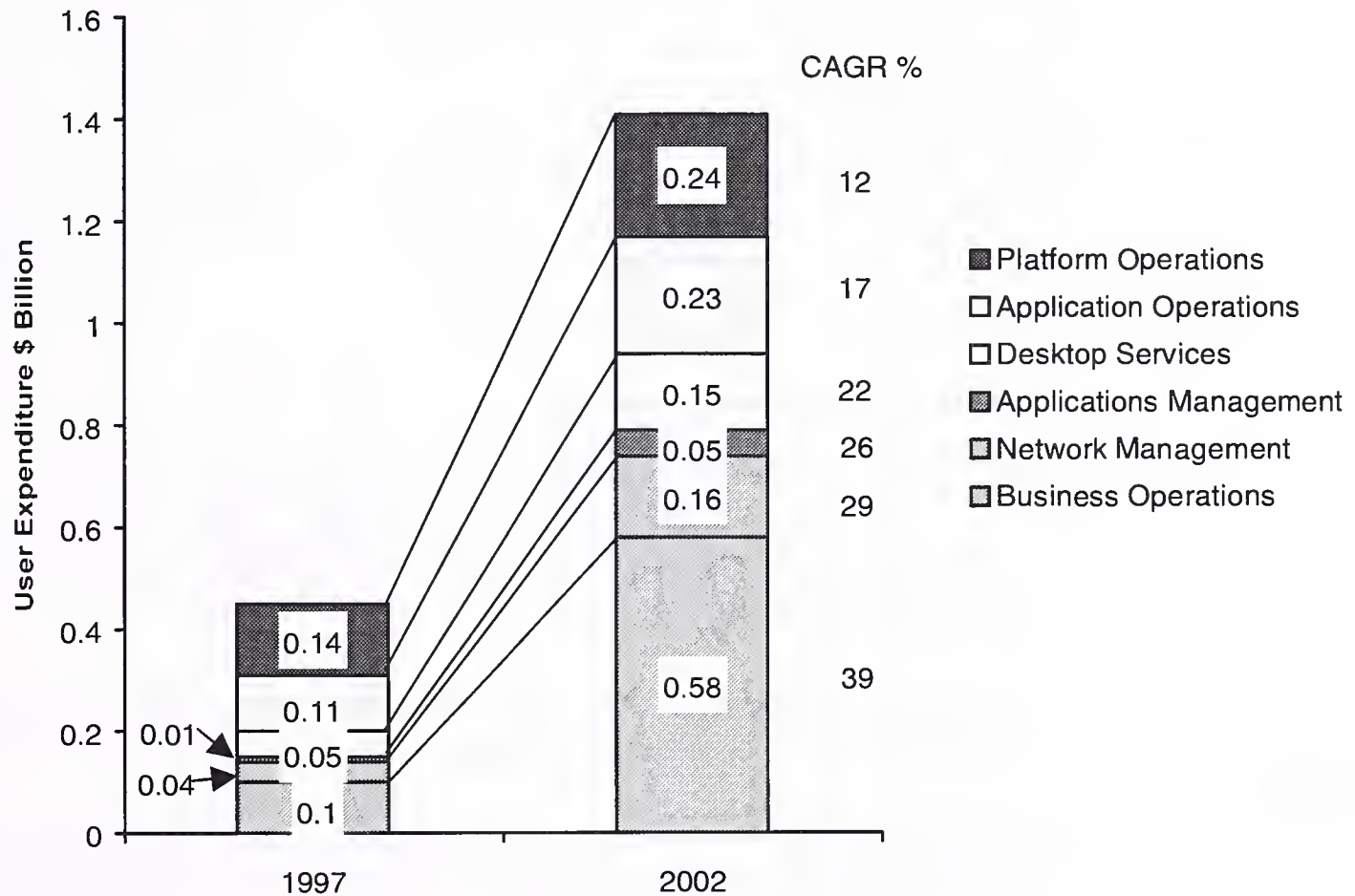
The critical components that define an outsourcing service are:

- Delegating an identifiable area of the operation to a vendor.
- Single-vendor responsibility for performing the delegated action.
- Intentional, long-term relationship between the client and the vendor.

Exhibit II-30 shows the growth forecast for the U.S. Utilities sector outsourcing market.

Exhibit IV-30

Utilities Sector Outsourcing Market - U.S.



Source: INPUT

Exhibit IV-31 shows the detailed forecast data in tabular form.

Exhibit IV-31

Outsourcing Services – Utilities Sector, U.S. (\$ Million)

| Subsector | 1997 Expenditure | CAGR | 2002 Expenditure |
|-------------------------|------------------|-------|------------------|
| Platform Operations | 137 | 11.9% | 240 |
| Application Operations | 105 | 16.5% | 225 |
| Desktop Services | 54 | 21.8% | 145 |
| Applications Management | 14 | 26.3% | 45 |
| Network Management | 43 | 29.2% | 155 |
| Business Operations | 110 | 39.4% | 580 |
| Utilities Sector TOTAL | 463 | 24.6% | 1,390 |

Source: INPUT

ii. Processing Services

The Processing Services category contains three subcategories:

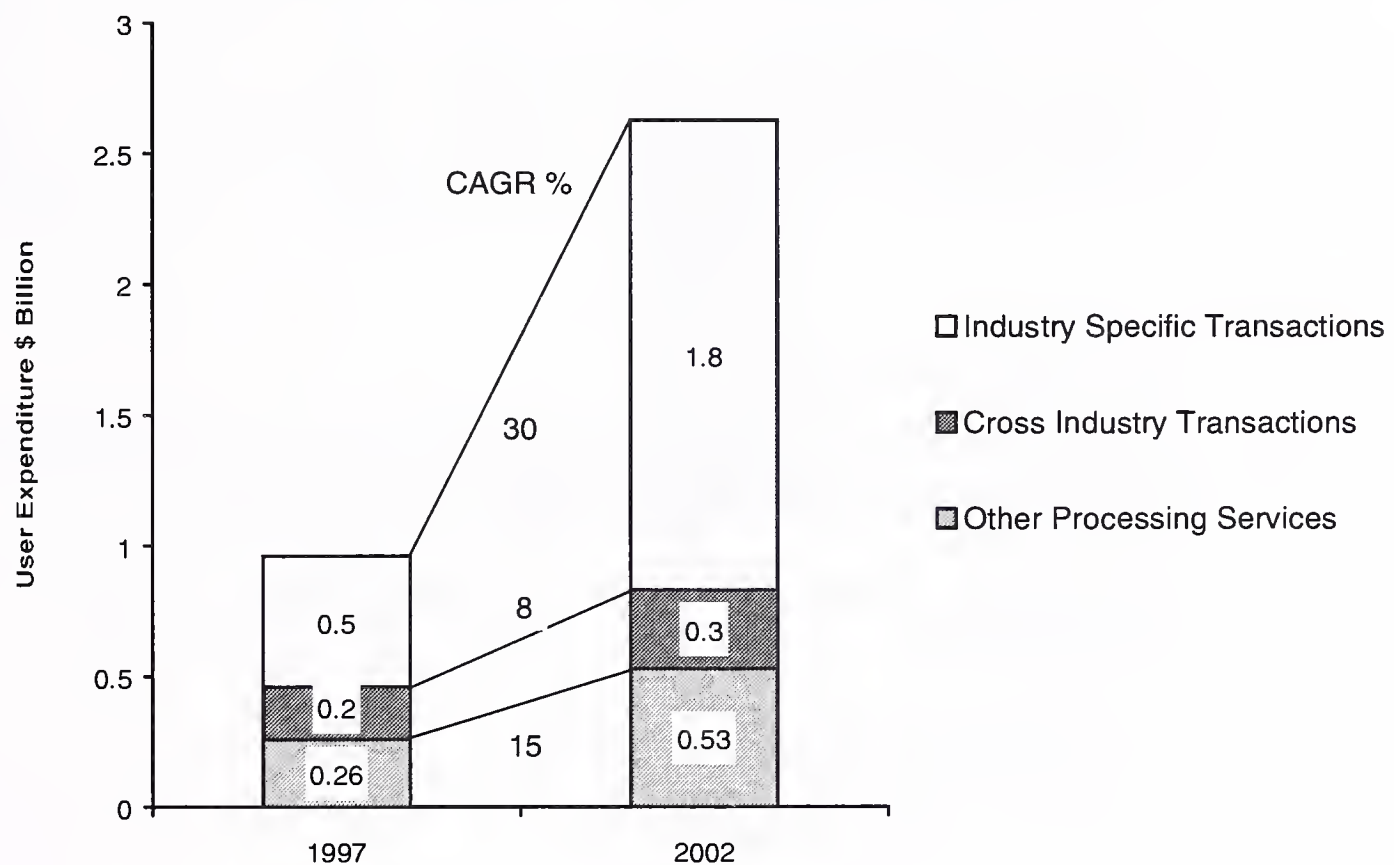
- Transaction processing – the processing of specific applications and client databases.
- Utility processing – clients develop and/operate their own programs or process data on the vendor' system.
- Other processing services – scanning and other data entry services, laser printing, computer output microfilm (COM), CD preparation and other data output services. This category also included backup, contingency and disaster recovery services.

Exhibit IV-32 shows the forecast for the U.S. Utilities sector Processing Services market.

It should be noted that in this Exhibit only the portion marked Industry specific transactions is counted within the industry specific part of the market analysis.

Exhibit IV-32

Utilities Sector Processing Services Market - U.S.



Source: INPUT

Exhibit IV-33 shows the detailed forecast data in tabular form.

Exhibit IV-33

Processing Services – Utilities Sector, U.S. (\$ Million)

| Subsector | 1997 Expenditure | CAGR | 2002 Expenditure |
|--------------------------------|------------------|-------|------------------|
| Industry Specific Transactions | 500 | 29.5% | 1,820 |
| Cross Industry Transactions | 200 | 8.4% | 300 |
| Other Processing Services | 260 | 15.3% | 530 |
| Utilities Sector TOTAL | 960 | 22.2% | 2,650 |

Source: INPUT

iii. Network Services

Network Services include a variety of telecommunications-based functions and operations, including those relating to the Internet.

This category, as can be seen from Exhibit IV-34, contains two subcategories:

- Electronic Information Services.
- Network Application Services.

Electronic Information Services are based on databases that provide specific information via a communications network.

Typical applications include stock prices, legal documents, economic indicators, periodical journals, medical diagnosis and airline schedules.

The two main categories of electronic information services are:

- On-line databases – structured, primarily numerical, data on economic and demographic trends, financial instruments, companies, products and materials, etc.
- On-line News (Text) Services – unstructured, primarily textual information on people, companies events, etc. These are most often news services.

There are four types of Network Applications Service:

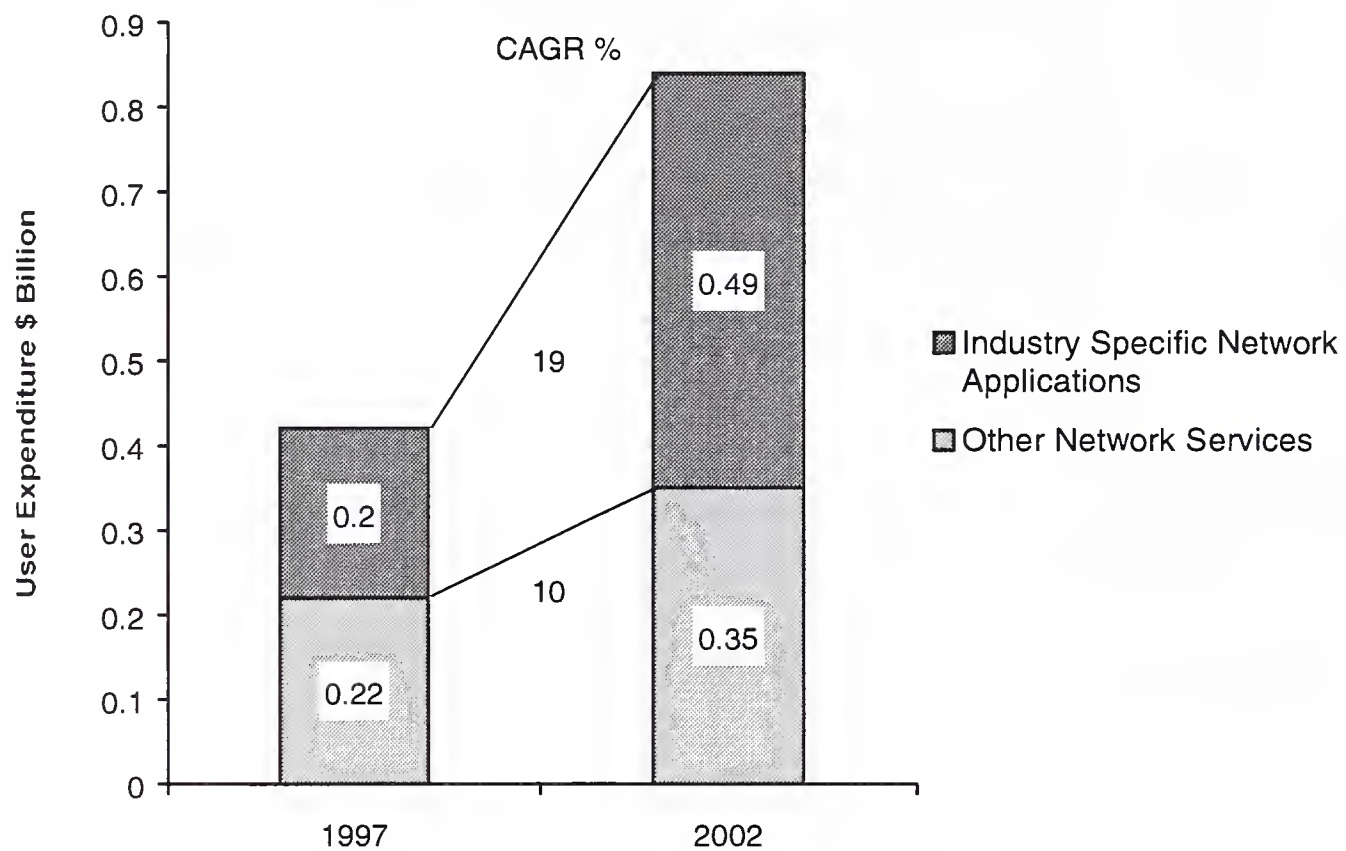
- Value Added Network Services (VAN Services) – are enhanced transport communications services.
- Electronic Commerce Services – a category that is going to become increasingly significant with the commercial exploitation of the Internet.
- Electronic Data Interchange (EDI) Services – traditional electronic commerce provided as application to application electronic exchange of business data between trade partners or facilitators.
- Electronic Information Interchange – the transmission of messages across an electronic network managed by a services vendor, including electronic mail, voice mail and messaging and including bulletin board services.

Exhibit IV-34 provides the forecast for the U.S. Utilities sector Network Services market.

It should be noted that Network Services are categorized only as falling within the Industry Specific or Other Network services categories.

Exhibit IV-34

Utilities Sector Network Services Market - U.S.



Source: INPUT

Exhibit IV-35 provides the detailed forecast data in tabular format.

Exhibit IV-35

Network Services – Utilities Sector, U.S.

| Subsector | User Expenditures (\$ Million) | | |
|--|--------------------------------|-------|------|
| | 1997 | CAGR | 2002 |
| Industry Specific Network Applications | 200 | 19.4% | 485 |
| Other Network Services | 220 | 9.7% | 350 |
| Utilities Sector TOTAL | 420 | 14.7% | 835 |

Source: INPUT

d. Applications Software Products

Applications software products are defined as products that enable a user or a group of users to support an operational or administrative process within an organization.

Examples include accounts payable, order entry, project management and office systems.

Applications software products are classified into two groups:

- Industry specific applications software products.
- Cross-industry or process applications software products.

In this section we are only concerned with industry specific applications software products for the Utilities sector.

Industry specific applications products perform functions related to fulfilling business or organizational needs unique to a specific industry market and sold to that market only, in this case the Utilities industry.

Exhibit IV-36 provides the forecast for the U.S. Utilities sector Applications Software Product market.

Exhibit IV-36

Utilities Sector Applications Software Product Market - U.S.

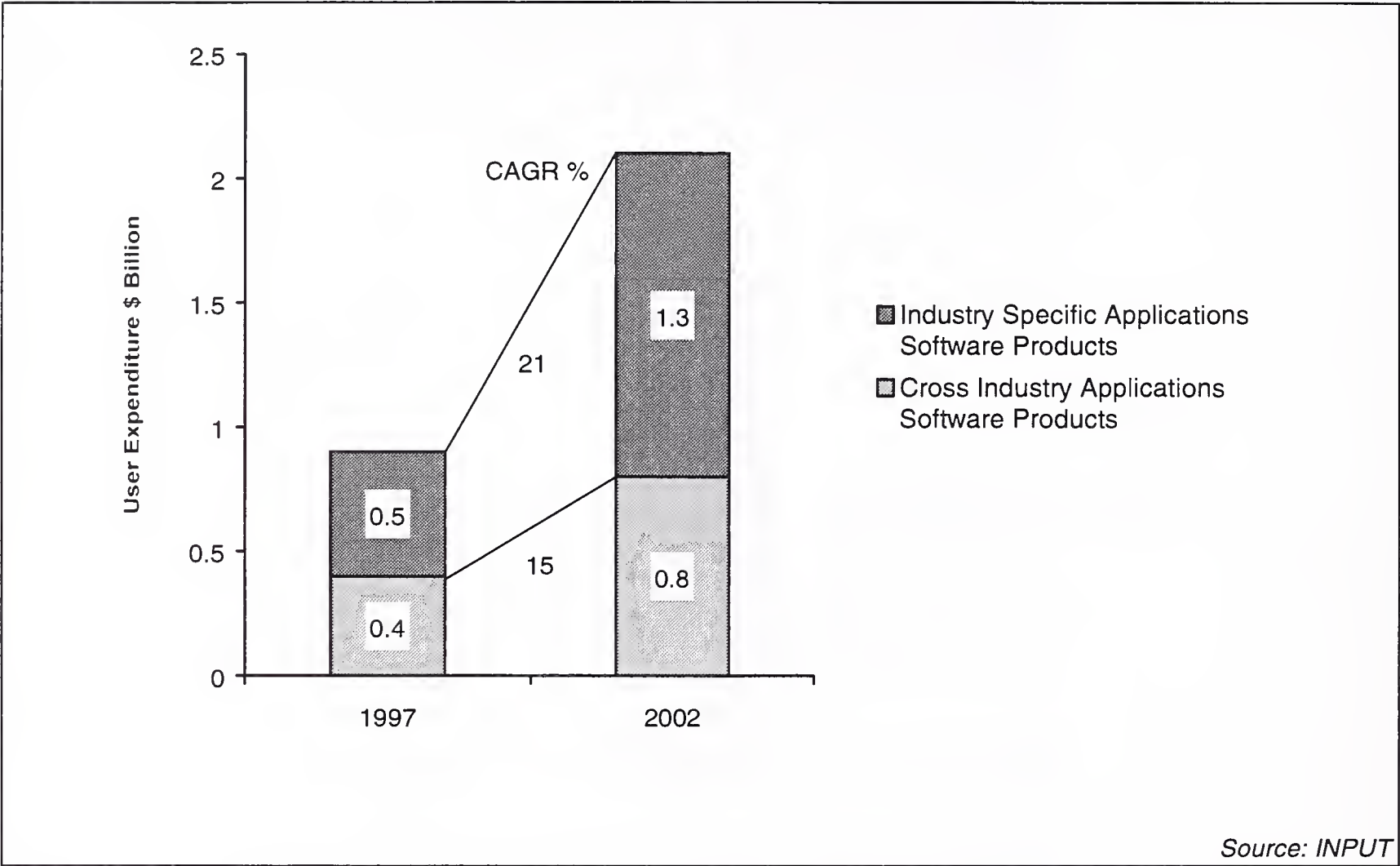


Exhibit IV-37 provides the forecast data in tabular form.

Exhibit IV-37

Applications Software Products – Utilities Sector, U.S.

| Subsector | User Expenditures (\$ Million) | | |
|--|--------------------------------|-------|-------|
| | 1997 | CAGR | 2002 |
| Industry Specific Applications Software Products | 501 | 21.0% | 1,300 |
| Cross Industry Applications Software Products | 375 | 15.2% | 760 |
| Utilities Sector TOTAL | 876 | 18.7% | 2,060 |

Source: INPUT

e. Turnkey Systems

A turnkey system integrates equipment, systems software products and packaged applications software products into a single product developed to meet a specific set of user requirements.

Value added by the turnkey system vendor is primarily in the software and professional services provided.

INPUT classifies turnkey systems into two groups as it does for applications software products, systems that are industry specific and those that address a cross-industry process market. This section is only concerned with those systems specifically targeted at the Utilities sector.

Most turnkey systems are sold through channels known as value-added resellers (VARs) and defined as:

- A VAR adds value to computer hardware and/or software products and then resells it.
- The major value add is usually applications software products but may include many of the other components of a turnkey system solution, such as professional services, software product support and applications upgrades.

Turnkey systems have three components:

- Equipment – computer hardware supplied as part of the turnkey system.
- Software products – prepackaged systems and applications software products.
- Professional services – services to install or customize the system or train the user, provided as part of the turnkey system sale.

Exhibit IV-38 provides the forecast for the U.S. Utilities sector industry specific Turnkey Systems market.

Exhibit IV-38

Industry Specific Utilities Sector Turnkey Systems Market - U.S.

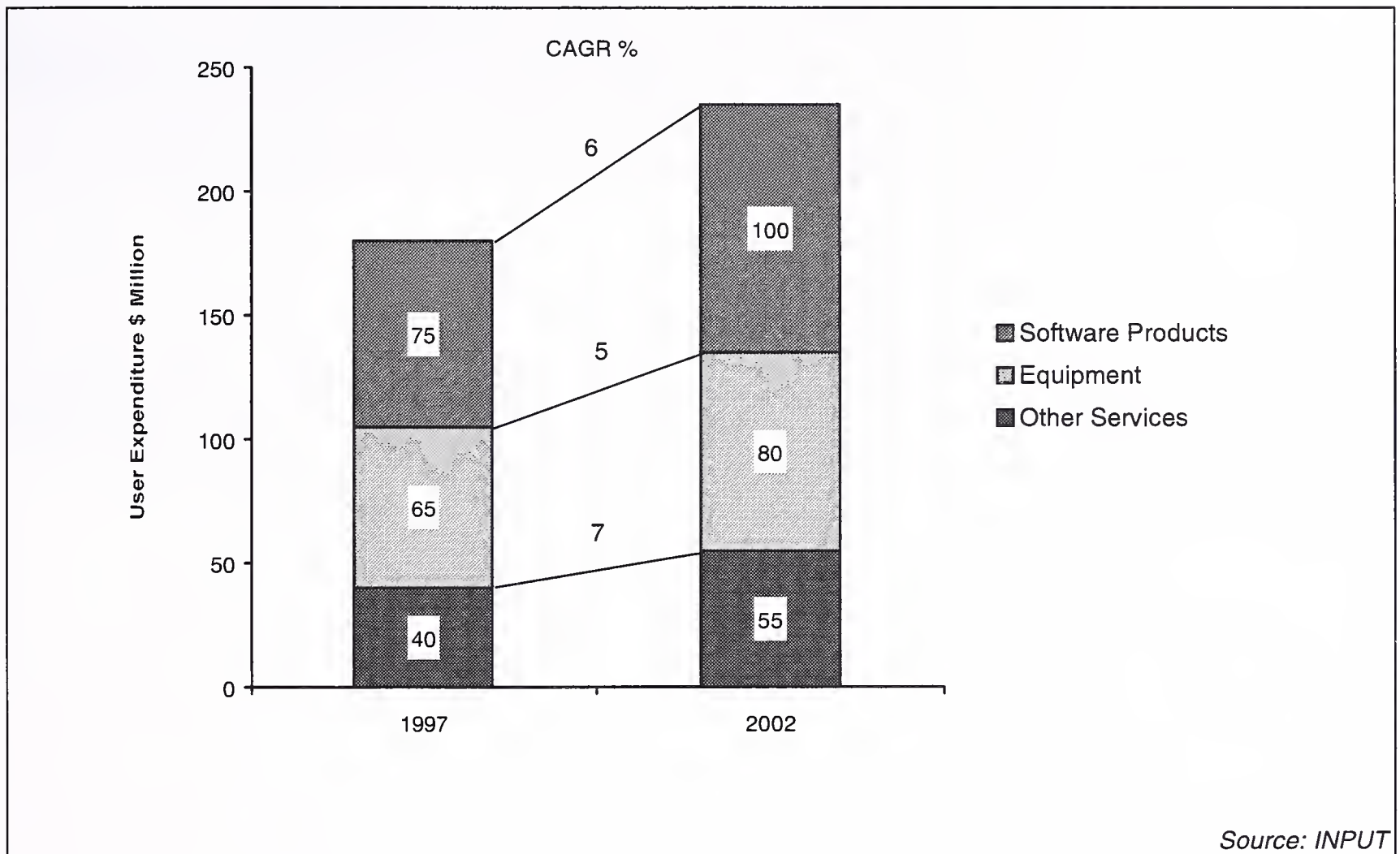


Exhibit IV-39 provides the detailed forecast data in tabular form.

Exhibit IV-39

Industry Specific Turnkey Systems – Utilities Sector, U.S.

| Subsector | User Expenditures (\$ Million) | | |
|------------------------|--------------------------------|------|------|
| | 1997 | CAGR | 2002 |
| Software Products | 75 | 5.9% | 100 |
| Equipment | 65 | 4.5% | 81 |
| Other Services | 40 | 6.6% | 55 |
| Utilities Sector TOTAL | 180 | 5.6% | 236 |

Source: INPUT

For the sake of completeness Exhibit IV-40 provides the detailed forecast data for the non-industry specific Turnkey Systems sold into the Utilities sector.

Exhibit IV-40

Cross Industry Turnkey Systems – Utilities Sector, U.S.

| Subsector | User Expenditures (\$ Million) | | |
|------------------------|--------------------------------|-------|------|
| | 1997 | CAGR | 2002 |
| Software Products | 20 | 11.2% | 34 |
| Equipment | 20 | 5.4% | 26 |
| Other Services | 10 | 8.4% | 15 |
| Utilities Sector TOTAL | 50 | 8.4% | 75 |

Source: INPUT

C

Comparison to Other Sectors

This section provides a comparison between the Utilities sector and the other industry sectors in the U.S. IT Software & Services market for a number of key statistics.

Exhibit IV-41 shows a comparison of the total IT expenditure for each of the U.S. industry sectors.

Exhibit IV-41

Industry Sector Comparison – U.S.

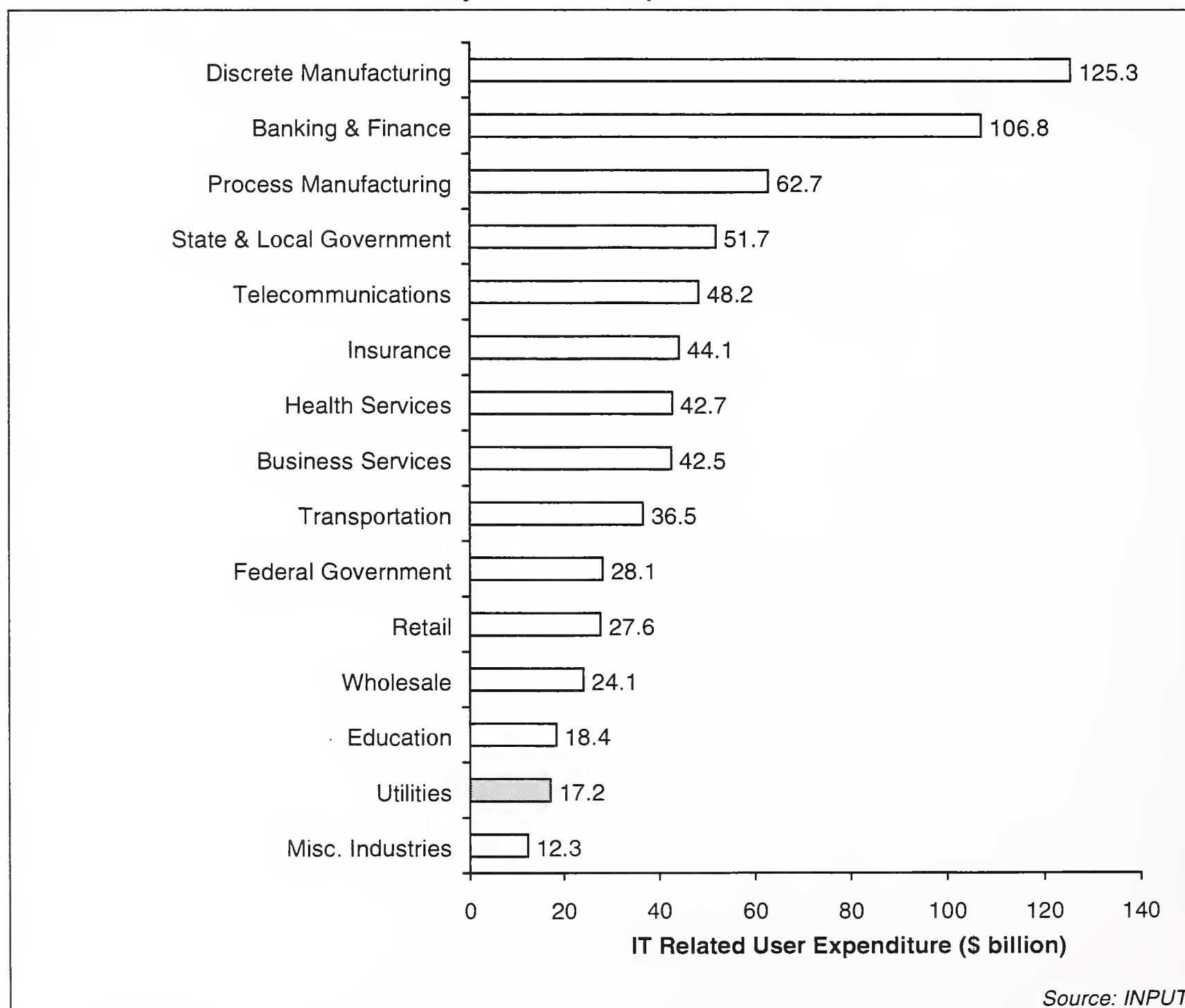
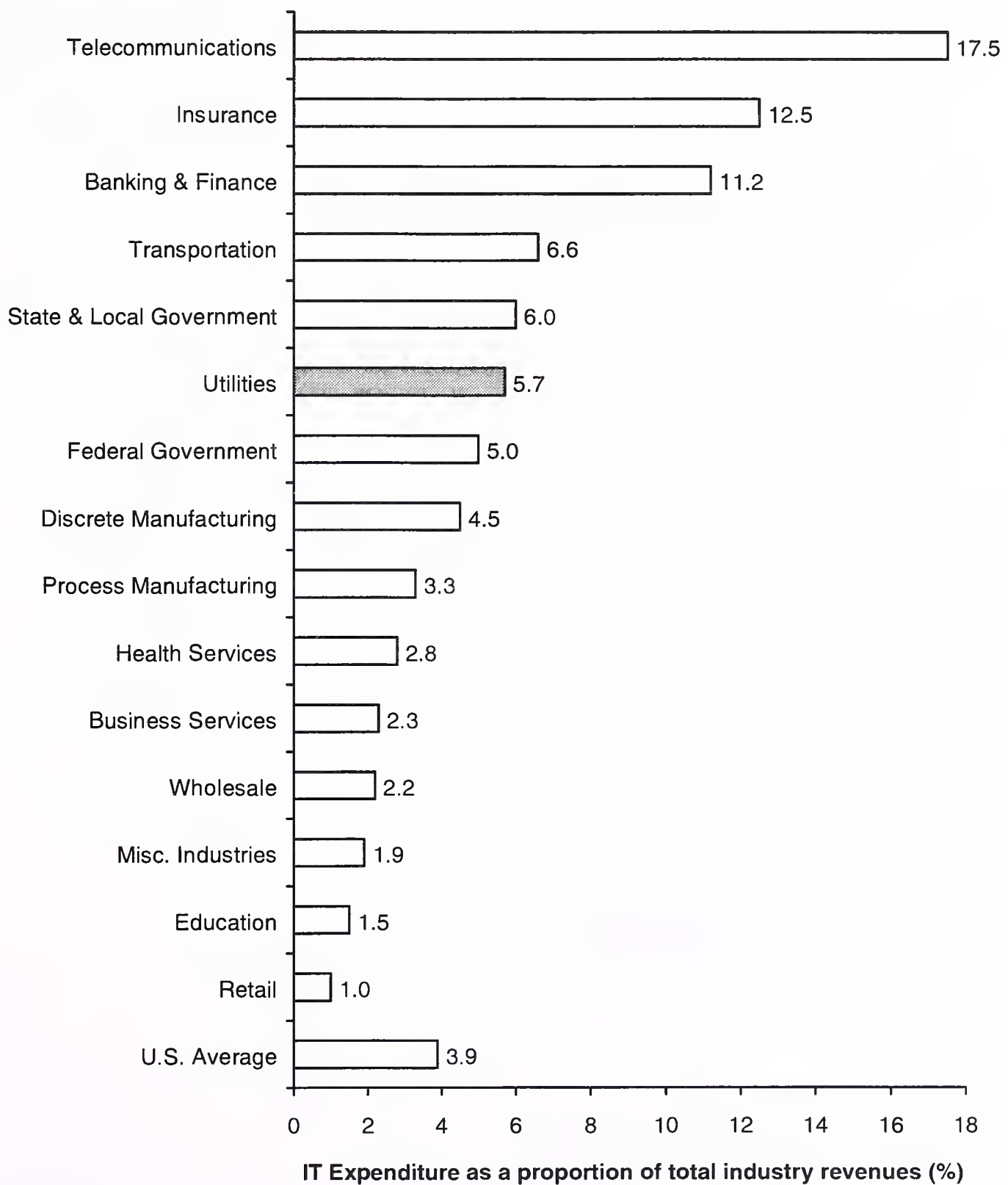


Exhibit IV-42 shows the comparison of the percentage of annual revenues spent on average on IT across the different industry sectors.

Exhibit IV-42

Industry Sector Comparison – IT Expenditure U.S.



Source: INPUT

Exhibit IV-43 shows the comparison for total IT Software & Services expenditure across the different industry sectors.

Exhibit IV-43

Industry Sector Comparison – IT Software & Services – U.S., 1997

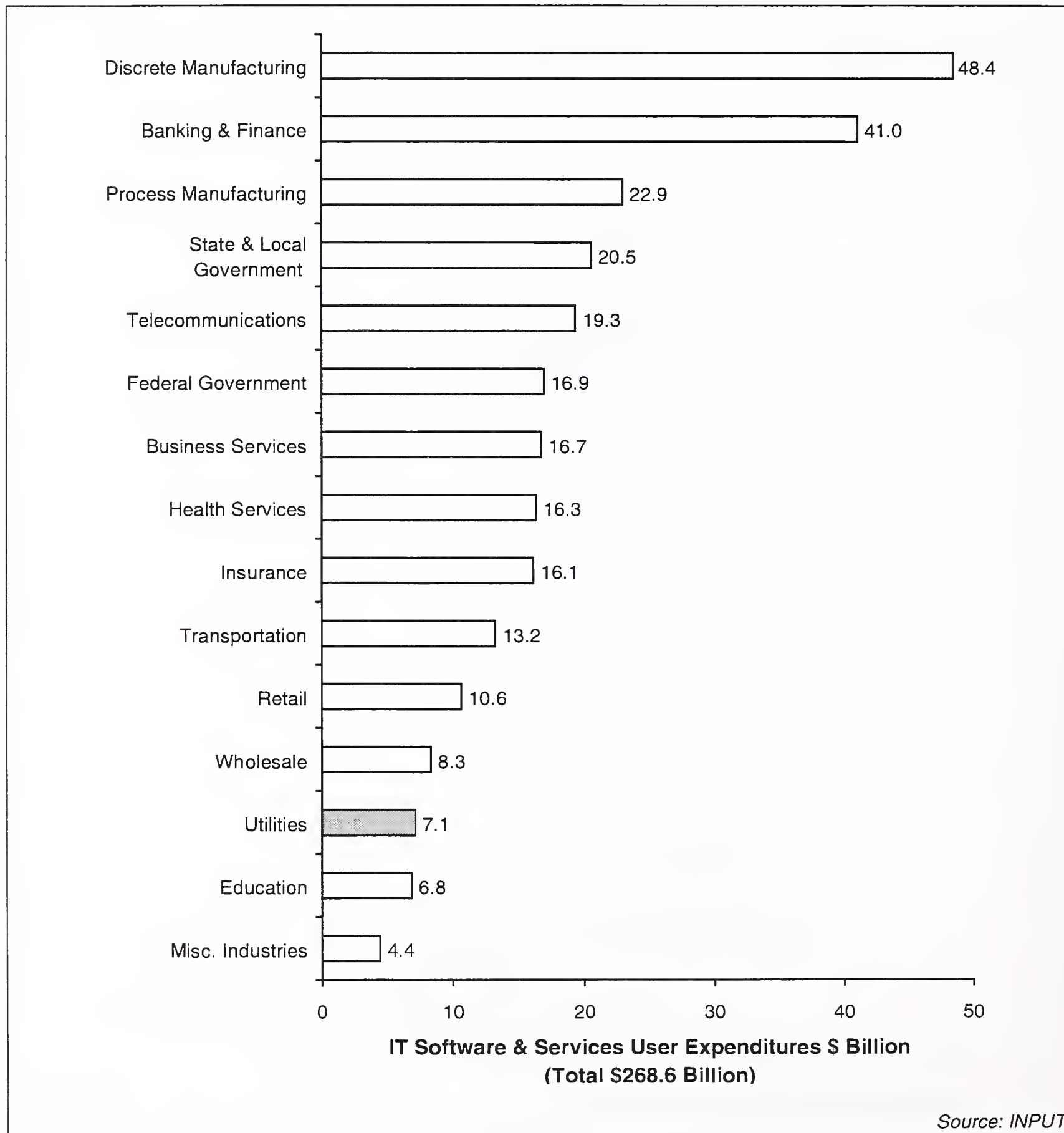
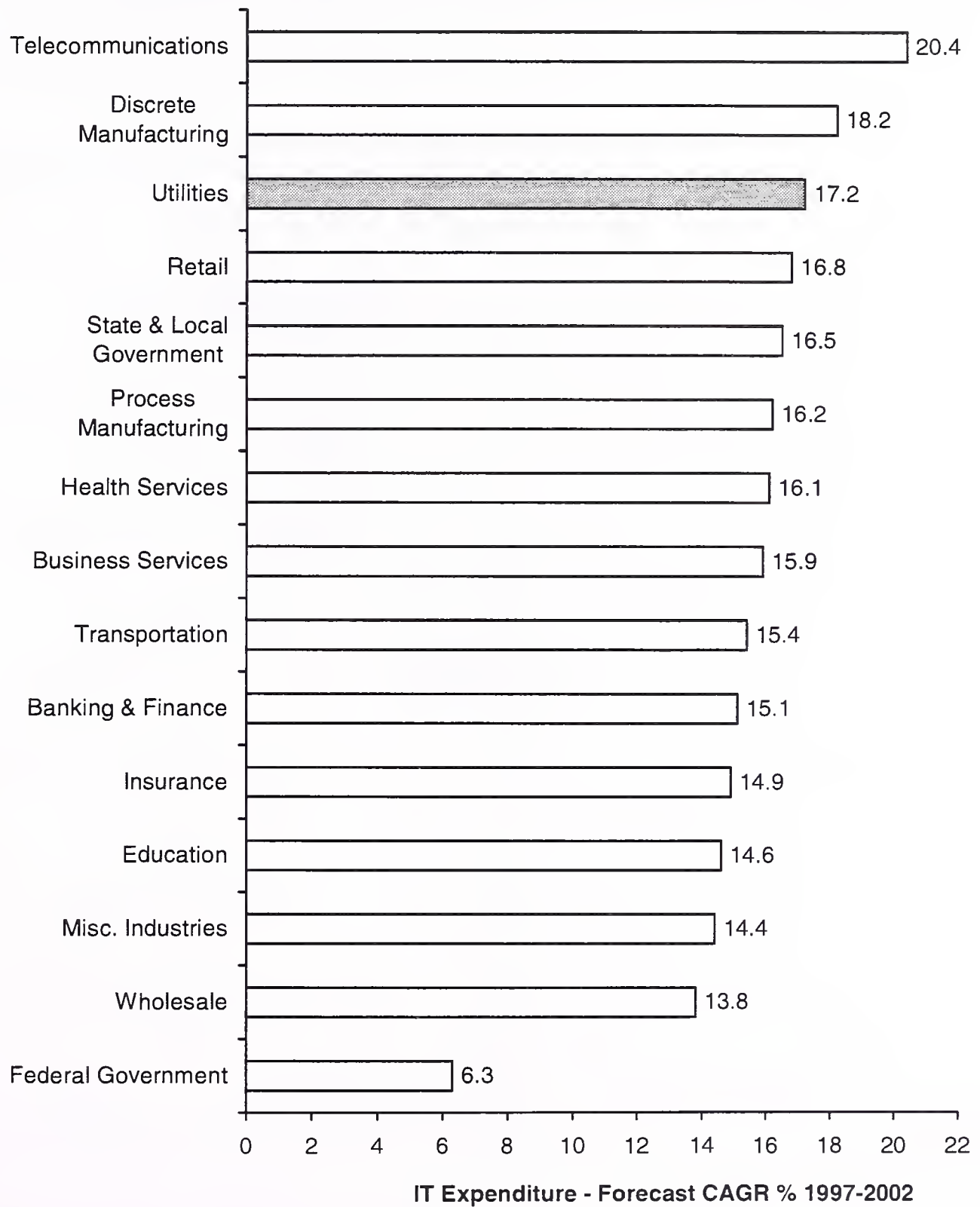


Exhibit IV-44 provides a comparison of the expected growth in IT Software & Services for each individual industry sector.

Exhibit IV-44

Industry Sector IT Expenditure Growth Comparison – U.S.



Source: INPUT

Exhibits IV-45 through 47 show comparative industry sector tables for the respectively the Professional Services, Systems Integration and Outsourcing sectors.

Exhibit IV-45

Industry Sector Comparison – Professional Services – U.S., 1997

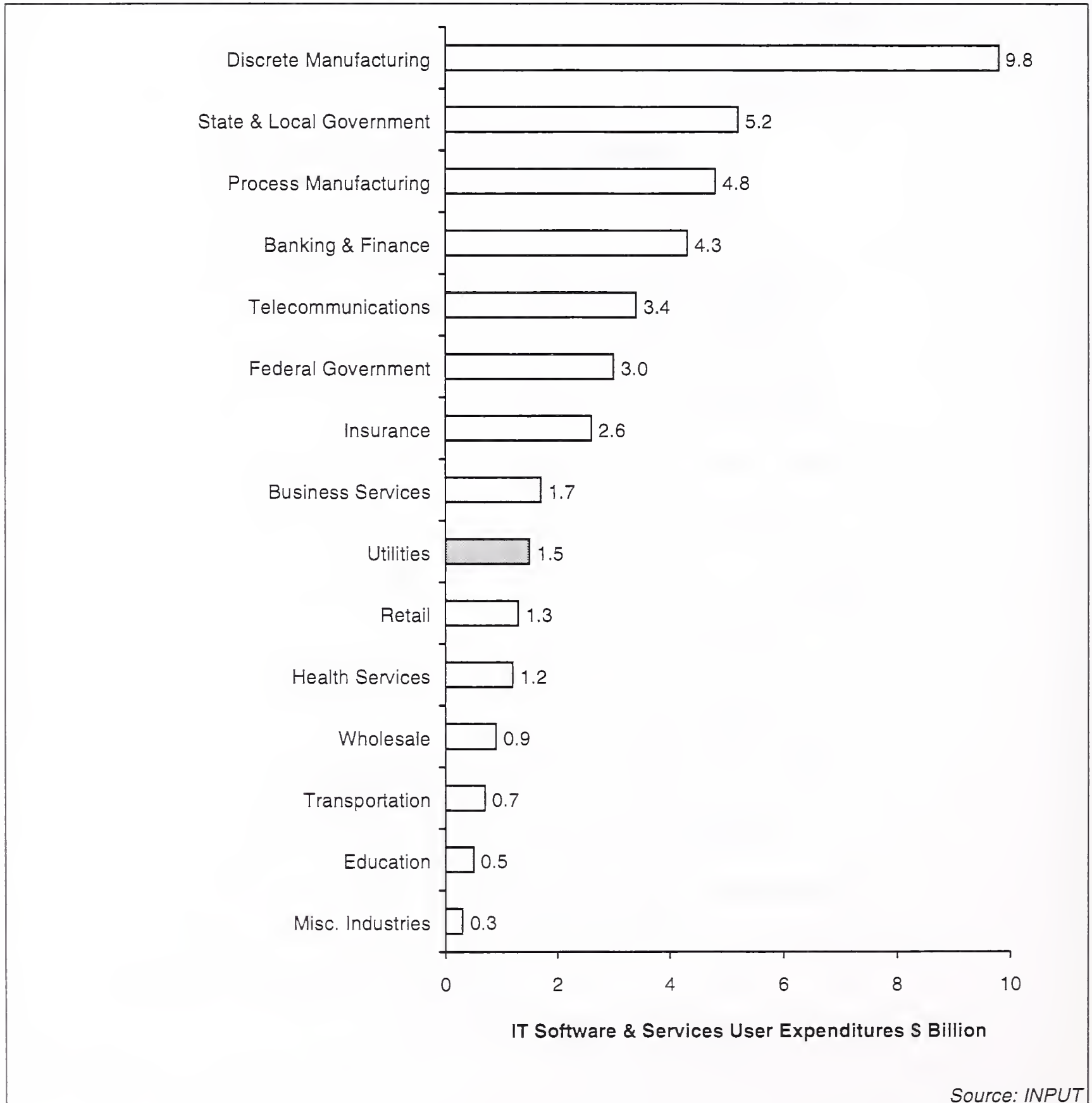
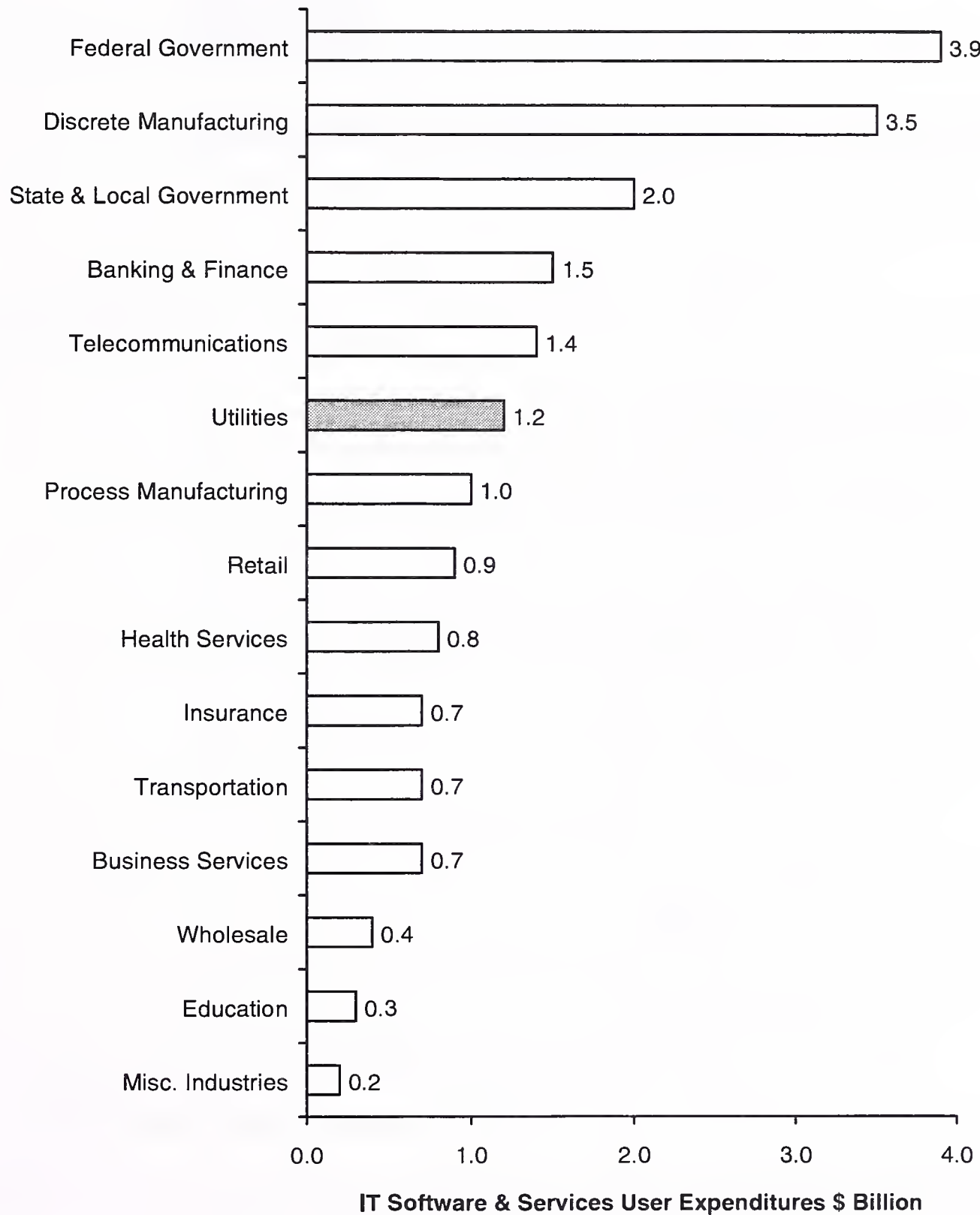
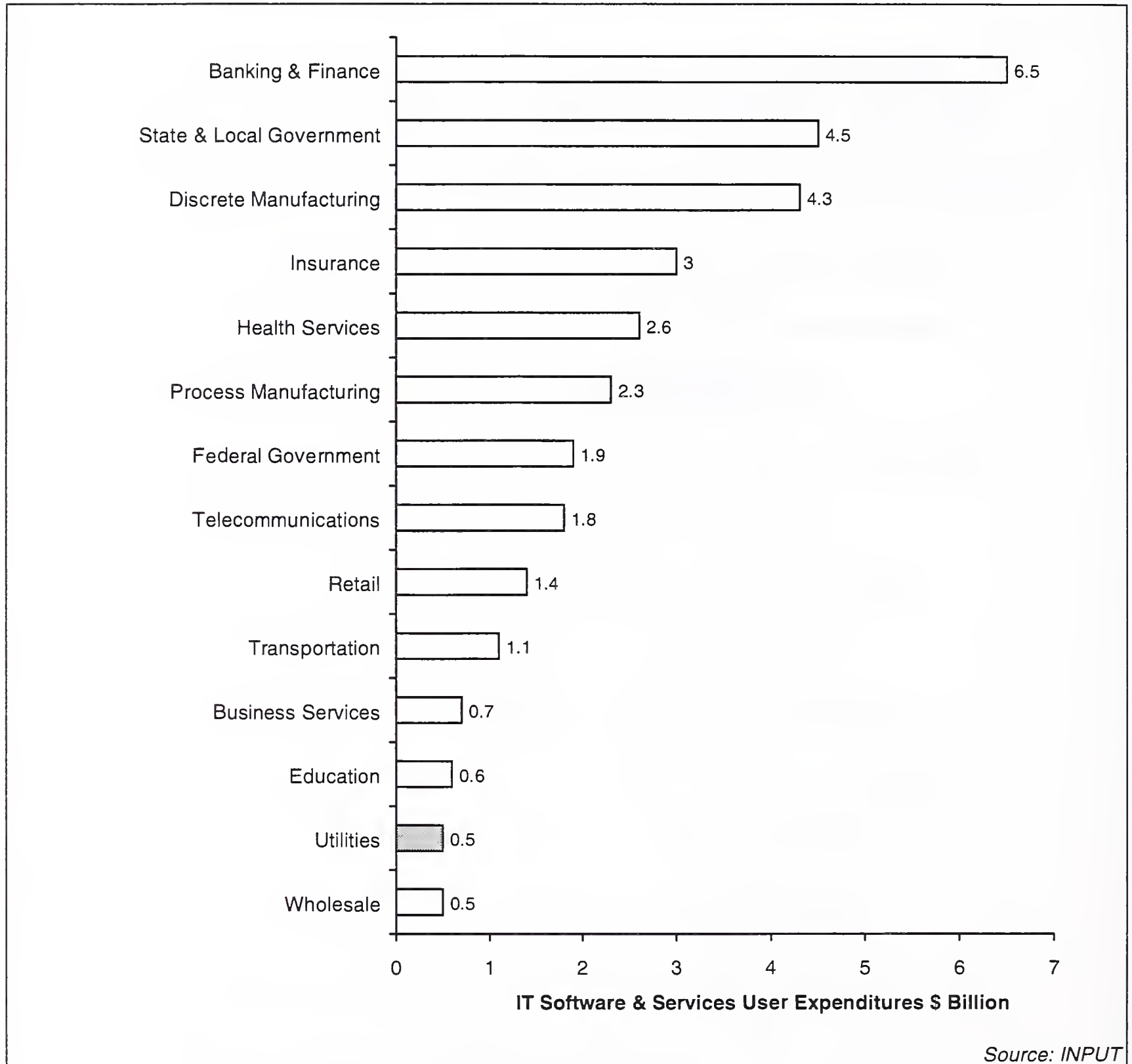


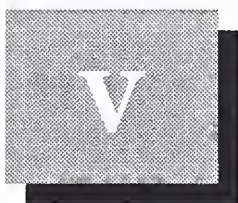
Exhibit IV-46

Industry Sector Comparison – Systems Integration – U.S., 1997

Source: INPUT

Exhibit IV-47

Industry Sector Comparison – Outsourcing – U.S., 1997



Electronic Business Directions

A

Electronic Business Futures

New competitive pressures in the Utilities business are forcing industry players to implement significant change within their organizations in order to meet increasingly demanding customer needs and stay competitive.

This new open competitive market is presenting the Utilities industry with unprecedented demands to operate more efficiently.

As a result Utilities organizations have to address the following key issues:

- Reduce service time to market.
- Cut operating expenses.
- Meet regulatory requirements.
- Improve engineering and operations work processes.
- Address competitive open market pressures.

Utilities organizations are looking to the implementation of IT based systems to support them in these endeavors.

Thus the development of advanced IT based systems has not only been one of the main enablers of an open competitive market environment for power generation and supply, it is also one of the key supports for effective operation in that environment.

In order to fully benefit from the application of IT to their business, Utility organizations need to implement Electronic Business (EB) systems.

Electronic Business is the combination of Information Technology and business process to form a new way of working.

Electronic Business is all about enterprise wide change. It impacts strategy, business processes, the use of technology, not just IT, and the interactions of the people involved in the enterprise.

Some of the problems and challenges being faced by the Utilities sector that can be addressed by the implementation of Electronic Business solutions include:

- Capturing new market opportunities.
- Creation of a market-driven culture.
- Improvements in customer service.
- Process rationalization.
- Redesigning the business.

The remaining sections of this Chapter cover:

- The definition and description of Electronic Business and its distinction from Electronic Commerce.
- The impact of the Internet on the development of Electronic Business systems and processes.
- The effect of Electronic Business developments on corporate computing.

B

Electronic Business and Electronic Commerce

The term 'Electronic Business' is frequently used as a synonym for Electronic Commerce, the latter term being used to describe the conduct of business transactions electronically.

In the past 10 to 15 years, Electronic Commerce implied the use of EDI (Electronic Data Interchange) systems, now the focus has switched to the possibilities for conducting commerce over the Internet.

The term 'Electronic Business' is however used by INPUT to signify something much deeper and more profound about the way that organizations are adapting IT systems, including the Internet, to reengineer and redesign the fundamental processes and value chains of their business.

There is a clear need to be precise about the way in which we use these two terms and what exactly we mean by them.

1. Electronic Commerce Definition

INPUT defines Electronic Commerce as the use of IT systems to carry out the interorganizational business processes of buying and selling goods and services.

This basic definition has been extended by contemporary use to include Electronic Retailing. Usually Electronic Retailing is referred to as Business-to-Consumer (B-to-C) Electronic Commerce and interorganizational trade as Business-to-Business (B-to-B) Electronic Commerce.

Electronic Commerce places emphasis on activities that are external to the organization, how customers are grouped and the firm's interactions with them.

Electronic Commerce is, however, only a part of the wider phenomenon of Electronic Business.

2. Electronic Business Definition

The Electronic Business revolution is possibly the most important change affecting organizations as we go forward into the 21st century.

Whilst Electronic Commerce places emphasis on activities that are external to the organization, Electronic Business places emphasis on the reengineering and/or automation of internal processes based on IT systems, see Exhibit V-1.

Exhibit V-1

What is Electronic Business?

- **Embedding of IT into an organizational process**
 - IT enables the process to operate
 - Differs form old IT support model
- **Process may be industry or function specific**

Source: INPUT

Electronic Business is the embedding of IT into a business process to create a system that would not be possible without IT support, IT enables that process to operate.

The Electronic Business model differs form the old or traditional model of IT use where it was used just to support the operation of a process which hitherto had run without the use of computer technology at all.

A critical test for an Electronic Business process is whether or not that process can operate at all if the IT system is inoperable.

For example, a reservation clerk that uses a reservation system to make airline bookings is not an example of Electronic Business.

An on-line system that allows a passenger to make a booking, obtain a ticket and a boarding pass electronically without intervention of a reservations clerk, is an example of Electronic Business.

In the 'old' IT support model the expenditure on IT is typically in the range of one to five percent of an organization's annual revenues, see Exhibit V-2.

Exhibit V-2

Electronic Business Expenditure

- **Level of expenditure on IT:**
 - In support model was 1 to 10% of costs
 - In EB model is 20% to 40% of costs

Source: INPUT

In the U.S., as was shown in Exhibit IV-4 earlier, the average for all industries is currently just under four percent with about half the identified industry sectors spending at a higher rate.

In the Electronic Business model IT expenses are going to be commonly measured in the range of 20% to 40% of organizations revenues or total expenses. In some cases they will be even higher as we continue our journey in the 21st century towards the electronic society.

In the past competitive advantage was based on structural characteristics like market presence/power, economies of scale and the comprehensiveness of a firm's product range.

Today, and increasingly in the future, competitive advantage is based on capabilities that consistently deliver superior value to customers. For example capabilities such as better internal co-ordination, workflow management, product and service customization and supply chain management.

Electronic Business is thus going to have a major impact on the way that commerce and industry, government and consumers conduct business in the 21st century.

C

Impact of the Internet

Improvements in transportation technology, the railway system from the middle of the 19th century, the road systems from the middle of the 20th century, reduced transportation costs and thus revolutionized the movement of goods and people.

Now the Internet is in the process of revolutionizing the transport of information as a result again of a drastic reduction in costs, this time for the transport of bits.

The Internet is particularly important as an enabler of both Electronic Business and Electronic Commerce.

The fabric of business and commerce is transactions.

The broad categorization of business transactions is:

- Transactions for acquiring data and information.
- Transactions for disseminating information.
- Transactions between business parties, B-to-B transactions.
- Transactions between a business and a consumer, B-to-C transactions.

To date there still exist some reluctance to use the Internet.

Characteristics of message handling of importance to trading partners are:

- Integrity – assurance that the message has not been altered.
- Confidentiality – message not viewed by third party.
- Non-repudiation – senders/receivers cannot deny sending/receiving.
- Authentication – assurance that message did come from the indicated party.

For Electronic Business and Commerce to flourish many common business services need to be established that will provide an

infrastructure for facilitating inter firm transactions and the buying and selling process.

We are still at the stage where the technical infrastructure is being established.

D

Issues for Corporate Computing

The movement towards Electronic Business is going to have important implications for corporate computing.

We have already witnessed the march of the Outsourcing business.

We are now seeing the start of the Business Process Outsourcing phenomenon.

One of the most significant impacts on corporate computing has been the Intranet.

Intranets are still most commonly used for low-value applications.

The primary motive for their use is to extend the reach of IT within an Organization, not reduce cost. This is an interesting sign of EB.

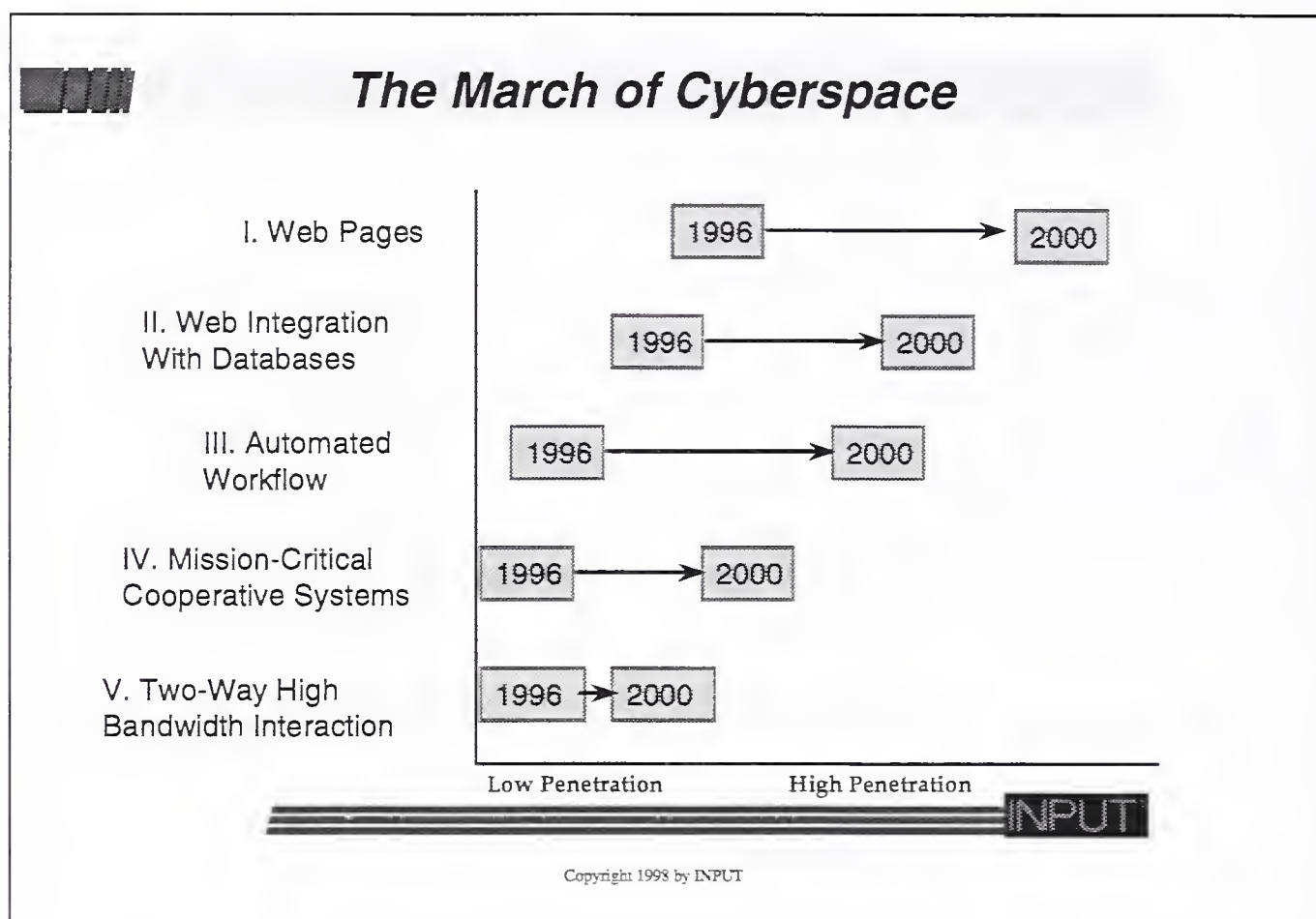
To date Intranets have tended to be funded from centralized budgets and largely been developed in-house.

They are still in early phase of use, mostly used for internal distribution of information and of most help to administrative staff.

Five phases of development are envisaged and observable now, see Exhibit V-3.

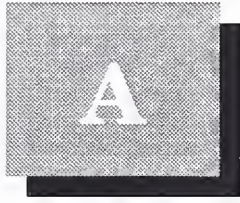
Exhibit V-3

Internet Development



Source: INPUT

- I Static info distribution, e.g. policies, directories, registers.
- II. Information sharing between units/departments. E.g. product plans, financial data, customer services records and sales contacts.
- III. Group collaboration. Project management, GroupWare and desktop conferencing.
- IV. Integration of existing systems with Intranet. Web enabled data warehouse, front-end to legacy database, live customer queries.
- V. Replacement of legacy systems.



Utilities Sector Database, 1997-2002, U.S.

This appendix contains data tables from the main body of the report to provide a convenient reference source.

AA

Total IT Software & Services

Exhibit A-1

Analysis of IT Software & Services Expenditure – Utilities Sector U.S., 1997

| Segment | | User Expenditures \$ Billions | | |
|--------------------------------|-------------------|-------------------------------|----------------|----------------|
| | | Industry Specific | Cross Industry | Other Services |
| Professional Services | Total | 1,475 | | |
| Systems Integration | Total | 1,200 | | |
| | Software Products | 142 | | |
| | Equipment | 344 | | |
| | Other | 714 | | |
| Outsourcing | Total | 463 | | |
| Processing Services | Transactions | 500 | 200 | |
| | Other services | | | 260 |
| Network Services | Total | 200 | | 220 |
| Applications Software Products | Total | 501 | 375 | |
| Turnkey Systems | Total | 180 | 50 | |
| | Software Products | 75 | 20 | |
| | Equipment | 65 | 20 | |
| | Other | 40 | 10 | |
| Systems Software Products | Total | | | 750 |
| Equipment Services | Total | | | 720 |
| Total | | 4,519 | 625 | 1,950 |

Source: INPUT

Exhibit A-2

Equipment Expenditure – Utilities Sector

| Sector | 1997 Expenditure (\$ millions) |
|-------------------------------------|---------------------------------------|
| Systems Integration | 344 |
| Turnkey Systems – Industry Specific | 65 |
| Turnkey Systems – Cross Industry | 20 |
| Utilities Sector TOTAL | 429 |

Source: INPUT

Exhibit A-3

Software Products Expenditure – Utilities Sector

| Sector | 1997 Expenditure (\$ millions) |
|-------------------------------------|---------------------------------------|
| Systems Integration | 142 |
| Applications Software Products | 876 |
| Turnkey Systems – Industry Specific | 75 |
| Turnkey Systems – Cross Industry | 20 |
| Systems Software Products | 750 |
| Utilities Sector TOTAL | 1,863 |

Source: INPUT

Exhibit A-4

IT Software & Services Components – Utilities Sector

| Sector | 1997 Expenditure (\$ millions) |
|------------------------|--------------------------------|
| Equipment | 429 |
| Software Products | 1,863 |
| Services | 4,802 |
| Utilities Sector TOTAL | 7,094 |

Source: INPUT

Exhibit A-5

Total IT Software & Services – Utilities Sector

| Sector | 1997 Expenditure (\$ millions) |
|------------------------|--------------------------------|
| Industry Specific | 4,519 |
| Cross Industry | 625 |
| Other Services | 1,950 |
| Utilities Sector TOTAL | 7,094 |

Source: INPUT

AB**Industry Specific IT Software & Services**

Exhibit A-6

Utilities Industry Specific IT Software & Services Market, U.S. (\$ millions)

| Sector | 1997 | CAGR | 2002 |
|--------------------------------|--------------|--------------|---------------|
| Professional Services | 1,475 | 19.8% | 3,635 |
| Systems Integration | 1,200 | 17.6% | 2,700 |
| Outsourcing | 463 | 24.6% | 1,390 |
| Processing Services | 500 | 29.5% | 1,820 |
| Network Services | 200 | 19.4% | 485 |
| Applications software Products | 501 | 21.0% | 1,300 |
| Turnkey systems | 180 | 5.6% | 236 |
| Sector TOTAL | 4,519 | 20.7% | 11,566 |

Source: INPUT

Exhibit A-7

Professional Services – Utilities Sector, U.S. (\$ millions)

| Subsector | 1997 Expenditure | CAGR | 2002 Expenditure |
|----------------------|-------------------------|--------------|-------------------------|
| IS Consulting | 522 | 21.3% | 1,370 |
| Education & Training | 311 | 20.6% | 795 |
| Software Development | 642 | 18.0% | 1,470 |
| TOTAL | 1,475 | 19.8% | 3,635 |

Source: INPUT

Exhibit A-8

Systems Integration – Utilities Sector, U.S. (\$ millions)

| Subsector | 1997 Expenditure | CAGR | 2002 Expenditure |
|------------------------|------------------|-------|------------------|
| Software Products | 142 | 20.1% | 355 |
| Equipment | 344 | 10.8% | 575 |
| Other Services | 714 | 19.9% | 1,770 |
| Utilities Sector TOTAL | 1,200 | 17.6% | 2,700 |

Source: INPUT

Exhibit A-9

Outsourcing Services – Utilities Sector, U.S. (\$ millions)

| Subsector | 1997 Expenditure | CAGR | 2002 Expenditure |
|-------------------------|------------------|-------|------------------|
| Platform Operations | 137 | 11.9% | 240 |
| Application Operations | 105 | 16.5% | 225 |
| Desktop Services | 54 | 21.8% | 145 |
| Applications Management | 14 | 26.3% | 45 |
| Network Management | 43 | 29.2% | 155 |
| Business Operations | 110 | 39.4% | 580 |
| Utilities Sector TOTAL | 463 | 24.6% | 1,390 |

Source: INPUT

Exhibit A-10

Processing Services – Utilities Sector, U.S. (\$ millions)

| Subsector | 1997 Expenditure | CAGR | 2002 Expenditure |
|--------------------------------|-------------------------|--------------|-------------------------|
| Industry Specific Transactions | 500 | 29.5% | 1,820 |
| Cross Industry Transactions | 200 | 8.4% | 300 |
| Other Processing Services | 260 | 15.3% | 530 |
| Utilities Sector TOTAL | 960 | 22.2% | 2,650 |

Source: INPUT

Exhibit A-11

Network Services – Utilities Sector, U.S.

| Subsector | User Expenditures (\$ Millions) | | |
|--|--|--------------|-------------|
| | 1997 | CAGR | 2002 |
| Industry Specific Network Applications | 200 | 19.4% | 485 |
| Other Network Services | 220 | 9.7% | 350 |
| Utilities Sector TOTAL | 420 | 14.7% | 835 |

Source: INPUT

Exhibit A-12

Applications Software Products – Utilities Sector, U.S.

| Subsector | User Expenditures (\$ Millions) | | |
|--|--|--------------|--------------|
| | 1997 | CAGR | 2002 |
| Industry Specific Applications Software Products | 501 | 21.0% | 1,300 |
| Cross Industry Applications Software Products | 375 | 15.2% | 760 |
| Utilities Sector TOTAL | 876 | 18.7% | 2,060 |

Source: INPUT

Exhibit A-13

Industry Specific Turnkey Systems – Utilities Sector, U.S.

| Subsector | User Expenditures (\$ Millions) | | |
|------------------------|---------------------------------|------|------|
| | 1997 | CAGR | 2002 |
| Software Products | 75 | 5.9% | 100 |
| Equipment | 65 | 4.5% | 81 |
| Other Services | 40 | 6.6% | 55 |
| Utilities Sector TOTAL | 180 | 5.6% | 236 |

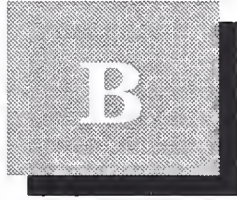
Source: INPUT

Exhibit A-14

Cross Industry Turnkey Systems – Utilities Sector, U.S.

| Subsector | User Expenditures (\$ Millions) | | |
|------------------------|---------------------------------|-------|------|
| | 1997 | CAGR | 2002 |
| Software Products | 20 | 11.2% | 34 |
| Equipment | 20 | 5.4% | 26 |
| Other Services | 10 | 8.4% | 15 |
| Utilities Sector TOTAL | 50 | 8.4% | 75 |

Source: INPUT



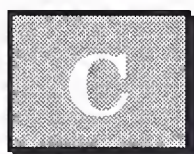
Market Forecast Reconciliation

Exhibit B-1

U.S. IT Software & Services
Forecast Reconciliation – Utilities Sector 1997
(\$ millions)

| PRODUCT/ SERVICE CATEGORY | 1997 Market | | | | 2001 Market | | | | 1996 Report %CAGR (Fcst) | 1997 Report %CAGR (Fcst) |
|--------------------------------------|----------------|----------------|-------------------------|-----|--------------------------|--------------------------|-------------------------|-----|-----------------------------------|-----------------------------------|
| | 1996 Report | 1997 Report | 1996 – 1997 Variance | | 1996 Report (Fcst) | 1997 Report (Fcst) | 1996 – 1997 Variance | | | |
| | | | Amount | % | | | Amount | % | | |
| Professional Services | 835 | 1,475 | 640 | 77 | 1,686 | 3,100 | 1,414 | 84 | 20 | 20 |
| Systems Integration | 1,192 | 1,200 | 8 | 1 | 2,239 | 2,400 | 161 | 7 | 17 | 18 |
| Outsourcing | 302 | 463 | 161 | 53 | 905 | 1,200 | 295 | 33 | 35 | 25 |
| Processing Services | 458 | 500 | 42 | 9 | 1,390 | 1,500 | 110 | 8 | 19 | 30 |
| Network Services | 74 | 200 | 126 | 170 | 146 | 425 | 279 | 191 | 19 | 20 |
| Applications Software Products | 501 | 501 | 0 | 0 | 1,070 | 1,150 | 80 | 7 | 21 | 21 |
| Turnkey Systems | 180 | 180 | 0 | 0 | 203 | 225 | 22 | 11 | 4 | 6 |
| Total Industry Specific | 3,541 | 4,519 | 978 | 28 | 7,638 | 10,000 | 2,362 | 31 | 21 | 21 |

Source: INPUT



Terms and Definitions

CA

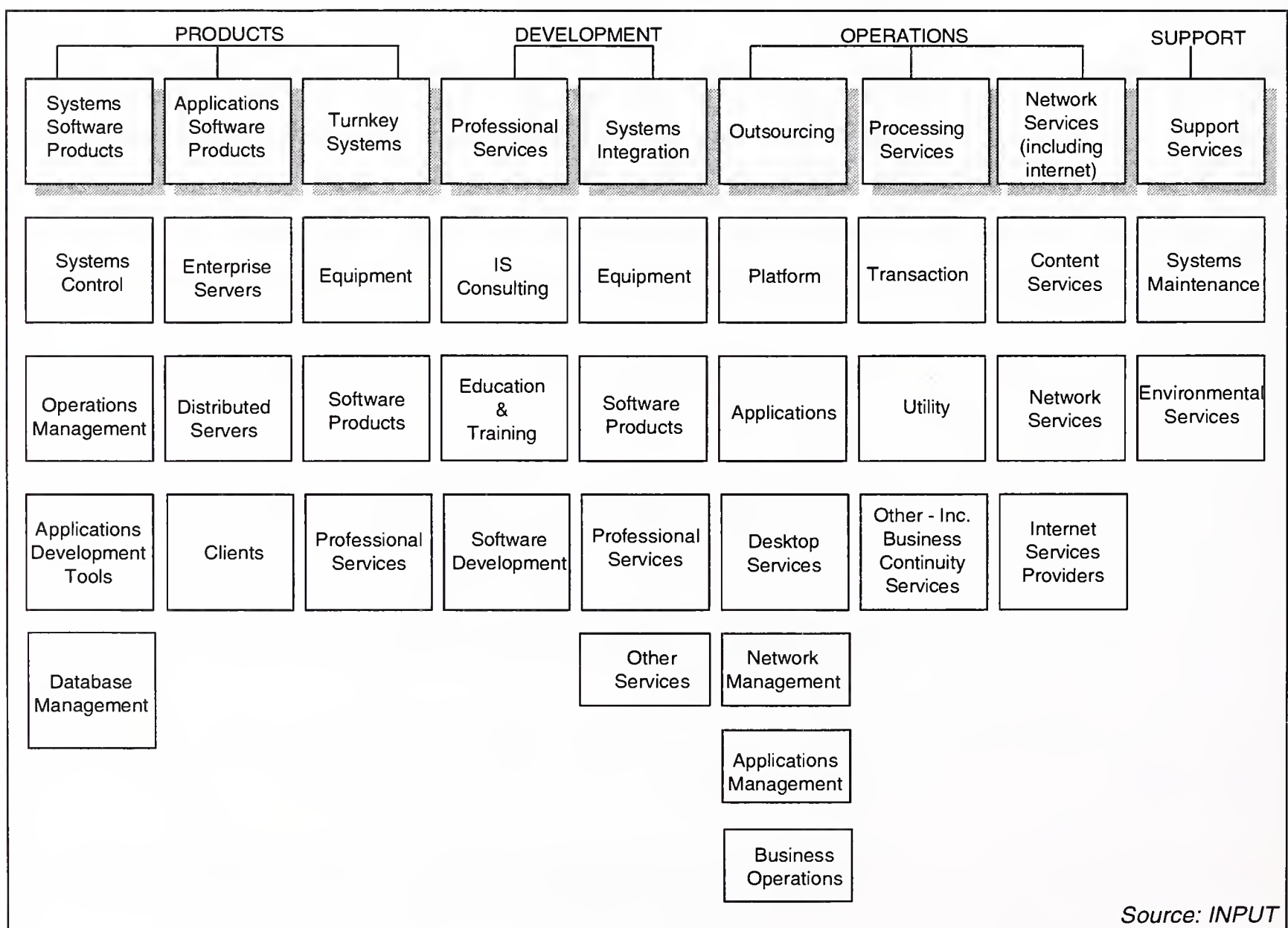
IT Market Structure

- INPUT now recognizes two broad market segments, Electronic Business (EB) and IT Software & Services .
- IT Software & Services expenditures are a component of total user expenditure on IT which also includes equipment and in-house personnel.
- INPUT provides an analysis of total user IT expenditure in its World-wide Market Forecast Program. In this analysis it recognizes six major discrete components of expenditure:
 - Equipment – expenditure on computer and data communications hardware products.
 - Communications – all expenditure on IT - related data communications services.
 - Software Products – all expenditure on systems software products and applications software product licenses including support services where these are included within the basic license fee.
 - IT Services – all expenditure on professional services, systems integration, outsourcing, processing services, network services, turnkey systems.
 - Staff – direct in - house staff costs directly concerned with IT or the support of it.
 - Facilities – IT budget expenditure on overheads such as space, heating, lighting, furniture, vehicles etc.

- INPUT's service sectors, described in detail below, can involve the delivery of a combination of components of people, computer processing and software products.
- The six categories defined above represent, however, the basic components or 'inputs' to the operation of IT by a user
- N.B that the IT Services category defined above does not correspond to INPUT'S definition of the IT Software & Services market since the latter includes all software products and the equipment delivered through service channels.
- The structure and components of the IT Software & Services market are shown in Exhibit C-1.

Exhibit C-1

IT Software & Services Market Structure



CB

Industry Sectors**1. Industry Sector Definitions**

Industry sectors are based on the most recent revision of the Standard Industrial Classification (SIC) code system, as shown in Exhibit C-2.

Exhibit C-2

Industry Sector Definitions

| Industry Sector | SIC Code | Description |
|-------------------------|----------|---|
| Discrete Manufacturing | 23xx | Apparel and other finished products |
| | 25xx | Furniture and fixtures |
| | 27xx | Printing, publishing, and allied industries |
| | 31xx | Leather and leather products |
| | 34xx | Fabricated metal products, except machinery and transportation equipment |
| | 35xx | Industrial and commercial machinery and computer equipment |
| | 36xx | Electronic and other electrical equipment and components, except computer equipment |
| | 37xx | Transportation equipment |
| | 38xx | Instruments; photo/med/optical goods; watches/clocks |
| | 39xx | Miscellaneous manufacturing industry |
| Process Manufacturing | 10xx | Metal mining |
| | 12xx | Coal mining |
| | 13xx | Oil and gas extraction |
| | 14xx | Mining/quarrying nonmetallic minerals |
| | 20xx | Food and kindred products |
| | 21xx | Tobacco products |
| | 22xx | Textile mill products |
| | 24xx | Lumber and wood products, except furniture |
| | 26xx | Paper and allied products |
| | 28xx | Chemicals and allied products |
| | 29xx | Petroleum refining and related industries |
| | 30xx | Rubber and miscellaneous plastic products |
| | 32xx | Stone, clay, glass and concrete |
| | 33xx | Primary metal industries |
| Transportation Services | 40xx | Railroad transport |
| | 41xx | Public transit/transport |
| | 42xx | Motor freight transport/warehousing |
| | 43xx | U.S. Postal Service |
| | 44xx | Water transportation |
| | 45xx | Air transportation (including airline reservation services in 4512) |
| | 46xx | Pipelines, except natural gas |
| | 47xx | Transportation services (including 472x, arrangement of passenger transportation) |

Source: INPUT

Exhibit C-2 (continued)

Industry Sector Definitions

| Industry Sector | SIC Code | Description |
|---------------------|--|---|
| Telecommunications | 48xx | Communications |
| Utilities | 49xx | Electric, gas and sanitary services |
| Retail Trade | 52xx 53xx 54xx 55xx 56xx 57xx 58xx 59xx | Building materials General merchandise stores Food stores Automotive dealers, gas stations Apparel and accessory stores Home furniture, furnishings and accessory stores Eating and drinking places Miscellaneous retail |
| Wholesale Trade | 50xx 51xx | Wholesale trade - durable goods Wholesale trade - nondurable goods |
| Banking and Finance | 60xx 61xx 62xx 67xx | Depository institutions Nondepository credit institutions Security and commodity brokers, dealers, exchanges and services Holding and other investment offices |
| Insurance | 63xx 64xx | Insurance carriers Insurance agents, brokers and services |
| Health Services | 80xx | Health services |
| Education | 82xx | Educational services |

Source: INPUT

Exhibit C-2 (continued)

Industry Sector Definitions

| Industry Sector | SIC Code | Description |
|----------------------------|----------|---|
| Business Services | 65xx | Real estate |
| | 70xx | Hotels, rooming houses, camps, and other lodging places |
| | 72xx | Personal services |
| | 73xx | Business services (except hotel reservation services in 7389) |
| | 7389 | Hotel reservation services |
| | 75xx | Automotive repair, services and parking |
| | 76xx | Miscellaneous repair services |
| | 78xx | Motion pictures |
| | 79xx | Amusement and recreation services |
| | 81xx | Legal services |
| | 83xx | Social services |
| | 84xx | Museums, art galleries, and botanical/zoological gardens |
| | 86xx | Membership organizations |
| | 87xx | Engineering, accounting, research, management, and related services |
| | 89xx | Miscellaneous services |
| Federal Government | 9xxx | |
| State and Local Government | 9xxx | |
| Miscellaneous Industries | 01xx | Agricultural production - crops |
| | 02xx | Agricultural production - livestock/animals |
| | 07xx | Agricultural services |
| | 08xx | Forestry |
| | 09xx | Fishing, hunting, and trapping |
| | 15xx | Building construction - general contractors, operative builders |
| | 16xx | Heavy construction - contractors |
| | 17xx | Construction - special trade contractors |
| Personal Households | 88xx | |

Source: INPUT

2. Process or Cross-Industry Sector Definitions

- These sectors or markets involve multi-industry applications such as human resource systems, accounting systems, etc. In order to be included in an industry sector, the service or product delivered must be specific to that sector only. If a service or product is used in more than one industry sector, it is counted as cross-industry.
- INPUT only includes the turnkey systems, applications software products, and transaction processing services in the cross-industry sectors.
- The cross-industry markets are:

a. Accounting/Finance

- Consists of such functions as:
 - General ledger
 - Financial management
 - Accounts payable
 - Accounts receivable
 - Billing/invoicing
 - Fixed assets
 - International accounting
 - Purchasing
 - Taxation
 - Financial consolidation.
- Excluded are accounting products and services directed to a specific industry, such as tax processing services for CPAs and accountants within the business services industry sector.

b. Human Resources

- Human resources companies:
 - Benefits administration.
 - Government compliance.
 - Employee relations.
 - Manpower planning.
 - Compensation administration.
 - Applicant tracking.
 - Position control.
 - Payroll processing.

c. Education and Training

- Education and training consists of education and training for information systems professionals and users of information systems delivered as a software product, turnkey system, or through processing services. The market for computer-based training tools for the training of any employee on any subject is also included.

d. Office Systems

- Office systems companies the following six categories:
 - (1) *Integrated Office Systems (IOSs)* - IOSs integrate the applications that perform common office tasks. Typically, these tasks include the following core applications, all of which are accessed from the same terminal, microcomputer, or workstation:
 - Electronic mail/groupware.
 - Decision support systems.
 - Time management/workflow.
 - Filing systems/document management.

- (2) *Text Processing* - is the most common microcomputer application and is a basic application within the office systems sector. Text processing addresses several levels of functionality, from the production of simple correspondence to large document generation in which many people from different departments have input.
- (3) *Desktop Publishing (DTP)* - refers to the page-design software programs that allow small and mid-sized organizations to publish printed documents (brochures, catalogs, newsletters, reports, etc.) from the desktop. The primary functions of DTP software include the manipulation of the following functions:
 - Layout and design of columns
 - Text manipulation (font type)
 - Graphic manipulation
 - Print Control (color type, paper type)
- (4) *Electronic Publishing* - includes composition, printing, and editing software for documents containing multiple typefaces and graphics, including charts, diagrams, computer-aided design (CAD) drawings, line art, and photographs. Electronic publishing products may also have different data formats such as text, graphs, images, voice and video.
- The fundamental difference between electronic publishing and desktop publishing is that electronic publishing facilitates document management and control from a single point, regardless of how many authors/locations work on a document. Desktop publishing (DTP), on the other hand, is considered a personal productivity tool and is generally a lower-end product residing on a personal computer.
- (5) *Graphics* - Graphics packages that are used for presentations or freehand drawings and/or are ancillary to desktop publishing are part of office systems. Thus, the graphics component of office systems sector includes the following elements:
 - Presentation graphics represent the bulk of office systems graphics. Most presentations involve a combination of graphs and text. They are used to communicate a series of messages to an audience rather than to analyze data.

- Paint and line art drawing programs are used for illustrations, while page layout programs are used to integrate text and graphics.
- Electronic form programs allow users to create and print forms in-house. Some applications work with OCR scanners, allowing users to scan pictures and logos directly onto forms.
 - (6) *Document Imaging Software* - allows users to manipulate (store, retrieve, print) images that have been scanned from paper documents. The applications that imaging software generates include: full text retrieval, document management, and database management. Document imaging software is a component of an imaging system. Hardware components of imaging systems include: scanners, image servers, workstations, optical drives, printers, and storage devices.

e. Engineering and Scientific

- Engineering and scientific activities encompass the following applications:
 - Computer-aided design and engineering (CAD and CAE).
 - Structural analysis.
 - Statistics/mathematics/operations research.
 - Mapping/GIS (Geographic Information Systems).
 - Computer-aided manufacturing (CAM) or CAD that is integrated with CAM is excluded from the cross-industry sector, as it is specific to the manufacturing industries. CAD or CAE that is dedicated to integrated circuit design is also excluded because it is specific to the semiconductor industry.

f. Planning and Analysis

- Planning and analysis consists of software products and information services in four application areas:
 - Executive Information Systems (EIS).
 - Financial modeling or planning systems.
 - Spreadsheets.

- Project management.

g. Sales and Marketing

- Sales and marketing encompasses the following marketing/sales applications:
 - Sales analysis.
 - Marketing management.
 - Demographic market planning models.

h. Other Processes

- Two other process areas that are emerging as significant cross-industry sectors are Customer Services and Logistics. They comprise the following:
- Customer Care/Services:
 - Support.
 - Repair/diagnostics.
 - Help desk.
 - Consulting.
- Logistics:
 - Invoice management.
 - Replenishment.
- Distribution.

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